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EDUCATION AND EDUCATIONAL FINANCE IN BOMBAY PRESIDENCY

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Stagnation is writ painfully large over the recent educational history of this province. Some quantitative improvement may no doubt be claimed for almost every branch of education. But this improvement appears almost a mockery when the high hopes entertained of the first step towards Responsible Government are recalled to mind and the actual achievement is compared with the magnitude of the task still unfinished. Nor is this regrettable failure to achieve quantitative progress relieved in any way by any bold and well-conceived attempts to raise the quality of the education actually supplied. Not that there is any lack of well-informed and broad-visioned criticism or speculation on the subject. As a matter of fact, reports of academic disquisitions, formal resolutions and proposals, cogitations of expert committees

encumber the library and perplex the mind of the serious students of affairs in this province. But unhappily, all this outpouring of educational thought and enthusiasm has not yet progressed beyond the stage of ineffective mouth-service.

In no branch of education is this frustration of hopes more complete or more painful than in primary education.

One of the early steps of the first Education Minister of this province was to appoint a committee which was to inquire into all aspects—administrative, financial and others—of primary education and to submit a definite scheme for adoption by Government. The committee consisted of eight non-officials and two official members of the Legislative Council with Sir N. G. Chandavarkar as its chairman. Its report was submitted in May, 1922 and was accepted by the Government as the basis of its future policy. The required legislation—afterwards known as the Primary Education Act of 1922—received the sanction of the Legislative Council in December of the same year.

The committee felt no hesitation in recommending the adoption of free and compulsory primary education for boys over the whole of the presidency in general. They enjoined caution, however, in the application of any drastic measures to the Guze districts where rural opinion seemed rather hostile to any compulsion. In the case of girls, however, the committee expressed misgivings as regards the preparedness of the populace for similar measures in the areas outside the jurisdiction of the municipalities. They were inclined to leave the problem to the decision of the local authorities.

On this basis, the committee framed a programme to be carried out in the next ten years. The areas commanded by the city municipalities were to be brought within the orbit of compulsion within five years—or less than five years even, if practicable—by adding annually to the school-population at least 20 per cent of the boys then out of school. The period for non-city municipalities and for villages which were fit to have a school

was fixed at seven years. In the case of the latter, the method recommended was to apply compulsion annually to one-seventh of the villages included in the jurisdiction of the district local boards. The committee also hoped during the same ten years to make primary education compulsory for girls subject to the authority of city and town municipalities. These two authorities were expected to add to their school-rolls 65 out of 73 thousand boys and 40 out of 57 thousand girls of school-going age then out of school. As regards rural areas, the committee did not hope to add to the number of school-going girls more than one lakh out of a staggering total of nearly a million.

These facts alone are not adequate to base a proper judgment on, as regards the educational policy and achievements of the Bombay Government during recent years. In addition to them, we must also bear in mind several other considerations which make a genuine diffusion of literacy a most complicated problem. These considerations relate mostly to the notorious disparities which exist between areas and areas, and classes and classes. Unless these disparities are materially reduced, a mere quantitative improvement in the number of literate and educated people may well become a source of increased social and political selfishness—not to speak of the insidious and unscrupulous exploitation screened behind the convenient but dreadful mask of non-communal democracy. We would even prefer that, if necessary, mere progress in numbers should be sacrificed to this politically urgent and socially more beneficial task of remedying these unjust disparities.

We are now in a position to find out and appreciate the significance of the statistics which abound in the annual educational reports of the Bombay Government.

We shall first direct our attention to the success achieved in this province in carrying the light of literacy into those considerable parts of the province which till 1921 were still without a school.

There are in this province about 26,230 towns and 'villages' in all. Of these, 10,167 towns and villages[1] only had one school or more in 1921.

Of the balance of 16,563, not all are fit to have schools in the present financial and administrative circumstances of this Government. According to the estimate of the Chandavarkar Committee, a minimum of 30 pupils at least is required if a school is to be set up with anything like a reasonable standard of initial and recurrent expenditure from the public funds. But no less than 12,000 of the villages under consideration have a population of less than 500 souls. Most of them would in all probability be unable to produce the requisite number of 30 pupils.

The committee found that out of the 10,000 and odd towns and villages which had one or more schools in 1921, as many as 3,000 were villages with a population of 500 and under. On this basis the committee were led to estimate that out of the other 12,000 tiny 'villages' to be yet provided for, about a half only would be able to satisfy the aforesaid canon of economy. In consideration of the fact that a good part of the available field must have been already covered by the existing educational facilities, this estimate of the committee appears a highly probable one.

The rest of the 'villages' present no such difficulties. Of these, 2,521 had a population of between 500 and 1,000 souls and 248 were inhabited by more than 1,000.

1 A 'village' means a revenue village which may comprise several more or less contiguous hamlets.

The statistics adduced below summarise the progress made under the auspices of responsible Indian Ministers:

Total towns and	1921	1925-26 (with schools)		1926-27 (with schools)	Total towns and villages in Divisions
Villages ...	26,730	Bombay Division	1,548	1,571	6,068
Those with schools in ...	10,167	Central Division	3,308	3,431	7,468
School-less ...	16,563	North Division	1,508	1,518	3,304
Those too small to have schools	6,000	South Division	1,861	1,936	4,738
Those which ought to have schools ...	10,563	Sind Division	2,012	1,7[illegible]7	5,134
		Total ...	10,237	10,244	26,731
		Deduct those with schools in 1921 ...	10,167	10,167	
			70	77	

Out of 10,563 'villages' which according to the Chandavarkar Committee were in urgent need of and fit for primary schools, only 77 had received the blessing till the end of the official year 1926-27.

The Chandavarkar Committee had drawn the attention of the Government and the public to the obvious backwardness of the country-side in primary education. It had also laid pointed stress on the growing and loud-voiced demand for such education from the representatives of the rural agricultural communities. The subjoined table sets forth the statistical evidence of the extent to which this disparity has been remedied.

PRESIDENCY, INCLUDING SIND (MINUS CITY).

Boys and girls of school-going age		Boys and girls at school in 1921	Boys and girls to be provided for	Boys and girls at school in 1925-26	Boys and girls at school in 1926-27
City and town municipalities ...	188+162	93+36	95+126	178+68	90+69
Villages which ought to have schools ...	862+809	305+66	557+743	511+35[2]	553+39[2]
Very small villages	123+123	...	123+123		

[2] 60 thousand girls are attending boys' schools.

In the case of urban areas, 85 thousand out of a total of 95 thousand boys have been already drawn into schools. But in the case of rural areas, only 206 thousand were added to the school-population out of a big total of 557 thousand to be provided for. Besides, this increase has not been evenly distributed over the province as it is largely due to one or two socially and politically agitated districts like Satara.

The disparity between rural and urban areas is—as might be expected—still more obvious in the case of girls. The number of additional girls attending schools in urban areas runs into a total of 32 thousand out of 126 thousand who awaited schooling in 1921. In rural areas, the number so added reaches 32 thousand again although not less than 743 thousand were out of school in 1921. The respective percentages compare as 25 and 5.

"The main problem," declares the Chandavarkar Committee, "is to develop primary education among the Non-Brahman Hindus in the presidency proper and among the Musalmans in Sind." But though this aspect of the problem was and is clearly recognised by all responsible authorities, little contribution has been made during these years towards its solution—as is made clear by the subjoined statistics.

PRESIDENCY (WHOLE).

Boys only.

	Percentage to population	Percentage of pupils to total number of pupils		
		1921-22	1925-26	1926-27
Advanced Hindus	... 9	33·6	31·3	21.0
Intermediate Hindus	... 57	41·1	42·8	47.6
Backward Hindus	... 23	6.6	8·4	13·3
Musalmans	... 11	18·6	17·4	18.0

Advanced Hindus, consisting mostly of Brahmans, and Musalmans are distinctly far ahead of the remaining 80 per cent of the

population. Between them, they contribute almost 50 per cent of the total strength of primary schools. The variations such as have occurred during recent years—insignificant as they are—must, however, be admitted to be in the right directions.

Except in the case of backward Hindus who consist of the depressed classes, criminal tribes, etc., no direct encouragement is given by Government to other classes in the field of primary education. Such direct encouragement is entirely reserved for the diffusion of higher education among them. In the case of the backward Hindus, 300 scholarships of different values are awarded in the higher classes of primary education, i.e., from 5th to 7th; there may be some evidence to believe that the number of scholarships actually falls short of their real requirements. But it is more probable that the provision of mere scholarships does not palliate, much less overcome the difficulties of their social and home environment.

There is, however, one form of encouragement which the Government have adopted and the importance of which cannot be easily exaggerated. They have definitely accepted the policy of increasing the percentage of teachers drawn from the backward and agricultural classes—the very people whose educational problem must be solved before any foundation of a truly progressive and democratic society can be laid.

PERCENTAGE OF PRIMARY TEACHERS

	Advanced Hindus	Intermediate Hindus	Backward Hindus
1923-24	... 66	31	3
1924-25	... 64	33	3
1925-26	... 62	34	4

The progress made is almost negligible. But what is of importance here is the recognition of the need of a definite change of policy on the part of the public authorities.

The teacher has been drawn in the past from those classes whom traditions of literacy and the narrowness of an exclusive intellectual culture had separated from the life of the masses at large. This was not perhaps a great evil as the larger part of the school material was supplied by these classes themselves and the reverence for and the submission to the high caste man were still rooted in the habits and instincts of the true children of the soil. But these conditions are now rapidly disappearing. The appeal of the personality of the high-caste teacher finds no moral or emotional response because his inability to enter and share the outlook and aspirations of the backward castes is too painfully obvious. In the extreme circumstances of overt or concealed antipathy, the teacher is apt to assume an attitude of cautious aloofness—with the inevitable consequence that the village school can never hope to become what it ought to be, the centre for the diffusion of useful information and better ideas for the community outside. Less frequently, when his sense of social obligation is strong or he is endowed with more than usual foresight, he falls into the opposite error of allowing himself to drift into a patronising pose. In either case, the consequences to education are equally disastrous. As a matter of plain fact, the psychology of caste is too subtle, too pervasive, too deeply ingrained to permit any real adjustment to new educational and social demands. But without such an organic adjustment, education must always remain bereft of its only dynamic force—the moral appeal of the teacher's personality.

Our only resource in the present circumstances is to use the narrow sociality fostered by caste as the only available basis for the appeal of the teacher to the community at large. Its narrowness is not perhaps too high a price to pay for the genuineness of its appeal to the instinctive and habitual elements in their social life. In restoring the moral and emotional strength of the teacher's personality, caste may perhaps in the course of time find in it its own antidote. In the meanwhile, it is to be strongly

hoped that the local authorities in whom the future administrative responsibility for primary education is vested will recognise the true purpose of the remedy and apply it with such wise discrimination as to avoid its other painfully notorious consequences.

This policy seems inevitable in the light of frequent grievances which are expressed in many responsible quarters. Most of them centre round an alleged lack of consideration on the part of teachers in their behaviour towards the pupils of the lower castes. It was no doubt against this regrettable spirit that a member of the local council was protesting, when he said—

"I have often received complaints from some of my Mahomedan brethren that in the schools the teachers (who are non-Muslims) address Mahomedan students as 'Miyabhai,' and while they do so they have not the least idea of what feeling they create in the minds of Mahomedan boys."

Indeed, it would amaze many self-satisfied men if they could get an adequate idea of the extent to which our present social and communal ill-feeling has been caused by such heedless exhibitions of ill-breeding. Bad manners, the authors of the Report on Indian Constitutional Reforms had gravely warned Englishmen in this country, are a crime in India. But it would be difficult to find a distinguished man or woman of the backward caste in this country who has not some equally bitter and indignant complaint against his high-caste teacher on the same ground. Unfortunately, these manners are not always acts of deliberate misbehaviour; they have the usage and sentiment of an antiquated social system to support and sometimes even to sanction them. In either case, the consequences are equally disastrous to social peace and amity.

An accurate knowledge of these disparities in educational progress is a necessary preliminary to the proper appreciation of the improvement which has taken place in the number of pupils attend-

ing school. The table below presents the relevant statistics of this quantitative improvement:

PRESIDENCY, INCLUDING SIND (MINUS CITY).

(*Boys only*)

	Total boys.	Boys at school.	Boys to be provided	At school in 1925-26	At school in 1926-27
Towns—villages with or fit for schools.	842+208	341+62	501+146	661+88	
Those not fit for school ...	100+25	..	100+23	...	717+91
Totals ..	1,173	403	770	749[3] *i.e.* 689	808[3]

It appears from these figures that 286 thousand boys out of a total of 770 thousand to be arranged for have found their way to school. But the first-mentioned figure does not give an accurate picture of the present situation. A very substantial part of the present school-going children is either below or above the age-limits fixed for compulsion. The percentage of such children to the total school-going children was as high as 33 in 1921. It would not be any violence to the existing realities to deduct on this account at least a quarter from this number of 286 thousand in order to make the figure comparable with those in the third column. After such an adjustment, it will be found that we have not yet succeeded in finding room in our schools for more than a quarter of the huge total of 770 thousand.

But situation seems really desperate when girls also are taken into account.

3 Deduct 60 thousand girls attending boys' school.

PRESIDENCY, INCLUDING SIND (MINUS CITY).

(Girls only)

	Total girls of school-going age.	Girls at school in 1921.	Girls to be provided for	At school in 1925-26	At school in 1926-27
Towns—villages with or fit for schools ...	814+157	68+16	723+141	90+16	97+17
Those not fit for school	100+23	...	100+23	...	...
Total ...	1,094	102	992	106[4]	114[4]

Thus only 64 thousand girls have been added to the school population out of a total of nearly one million to be yet sent to school. It is not, besides, possible to find out how many of those who attend school are below or above the legal limits of compulsion—so that the figures are not strictly comparable. It is very probable that on account of our social customs and outlook not many are above the upper limit of compulsion. The adjustment required on this account cannot therefore affect our conclusion very materially.

To summarise the findings of this section. The statistics of school-going children record an ostensible increase during the last few years in the case of boys. But even this small increase is more apparent than real. For, little or nothing has yet been done towards mitigating the vast disparities in educational progress which exist between rural and urban areas, advanced and backward communities, numbers of school-endowed and school-less villages, and finally between boys and girls. Unless these disparities are materially reduced, in other words unless the light of literacy is carried into quarters which till now have been suffered to remain without it, it cannot be said that any real step has been made towards the solution of the problem of primary education. Indeed both political wisdom and social justice seem to demand

[4] See note, p. 10.

that, if necessary, mere quantitative progress should be subordinated to a determined policy of abrogating these disparities.

Quality of Education.

The tardy nature if not the absence of quantitative progress in primary education may well cause the gravest anxiety as regards the future of this province. But when we pass on from these quantitative to qualitative considerations, a situation is at once revealed which makes this future look still more gloomy and even desperate. An impartial examination of the whole problem from this viewpoint throws the utmost doubt on the wisdom of continuing further in our present track.

Under our present system an enormous number of children never pass beyond the first or the second standard of the Lower Primary stage. After two or three years of stagnation in these classes, they break off their connection with the school and as a matter of course relapse quickly into utter illiteracy. Even of those who pass the 4th standard—the highest class of the Lower Primary stage—the majority, there is considerable ground to believe, share the same fate.

The subjoined table presents the relevant statistics on this very vital point:

(FOR BOYS AND GIRLS)

	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.
Percentage in Upper Primary stage	9.8	8.9	9.6	9.9	9.6	9.4
Percentage in Lower Primary stage	90.2	91.1	90.4	90.1	90.4	90.6
Percentage of pupils in Infant Class	..	35.8	31.5	29.8	30.9	32.9
Percentage of those who pass 4th Standard to those who joined school 5 years previously ...	12.9	12.4	11.6	12.6	15.4	16.8

The row of figures at the bottom may well cause a shudder of utter despair. If out of every 100 pupils who join the school in any year, not more than 15 are destined to complete the Lower Primary stage, we may well wonder how universal literacy can be ever achieved under the present system except after the lapse of several centuries.

This staggering wastage appears all the more amazing when a comparison is made with the corresponding phenomenon in our secondary schools. One would naturally expect this wastage to be normally far greater in secondary schools than in primary schools. For the selective process of examination is of more importance in the former institutions; and the advanced age of boys is more likely to act as a powerful temptation for their premature withdrawal into wage-earning occupations. As a matter of fact, however, the corresponding percentage of boys who reach the highest classes in our secondary schools is almost twice as high as in the primary schools—25 per cent in actual figures. The well-known fact that our institutions for higher education have been in the past and still are the close-preserves of the literate high castes may perhaps be a part of the explanation of this apparent paradox. But this fact by itself cannot account for the whole of this situation.

The reports of the school-inspectors ascribe this dismal situation to several social and economic causes. Parents are said to be always desirous of availing themselves of the aid of their children for agricultural purposes—in particular at the harvest time. Sometimes, indeed, they remove themselves bag and baggage to their fields for the whole of the agricultural season. This indifference is further strengthened by the all too common and deep-rooted prejudice against all education as the hall-mark of snobbishness or unwillingness to do manual work. Even among those who feel a dim moral obligation to send their children to school, a general reluctance to interest themselves in their progress from day to day is said to be becoming more and more

common. The abolition of the system of supplementary remuneration to the teachers who showed better results may have aggravated these evils.

The remedies applied are as various as the causes of the extraordinary situation. In a few places, one-session schools have been instituted for harvest times. In a few more, gardening and manual training of an elementary nature have been added to the regular school courses. Stimulus has been applied to the teachers as well by recruiting them from the agricultural classes themselves or by granting them bonuses when they show a high proportion of pupils in the higher classes. But all these remedies are reported to have proved inadequate to effect even a small diminution of this great evil.

The Director of Public Instruction seems to disagree with the foregoing analysis both of the causes of this failure and the appropriate remedies to be applied to it. He touches no doubt the very fundamental roots of the problem when he stresses the necessity of compulsion and improvement in the quality of teaching as the true and only remedies. Compulsion alone will now increase the number of those who attend the schools and of those who will stay on and acquire the rudiments of literacy before the expiry of the legal age limit. Not less vital than compulsion is the need of making the teaching in these schools something else than the present all too common irresponsibility and perfunctoriness. There is little prospect of this much-needed change to better conditions, however, so long as the stigma of the one-teacher school continues to disfigure our primary education policy. Not less than 45 to 50 per cent of our schools are at present labouring under the blasting curse of one-teacher instruction. It was due largely to the fact that till very recently, the rules prescribed a maximum of one teacher for every 40 pupils as the basis for the calculation of the Government share of the total expenditure.

Other improvements will be required no less urgently in order

to enlist the active assent and co-operation of the large masses in the cause of literacy. The most important among these would be to bring our educational system into intimate contact with the daily life of the community whom it is intended to serve. The well-known lack of popularity of our present educational efforts is to be mainly ascribed to the fact that their 'literary' bias has somehow seemed to run counter to the agricultural habits and outlook of the people at large. There is a large element of truth—although not a significant one so far as the lower branches of primary and middle-school education are concerned—in this general impression. As a matter of historical fact, the whole of our modern educational arrangements and a substantial part of our educational ideas also are a direct product of industrial conditions and urban life in the West. It is not surprising, therefore, if the adoption of these ideas and arrangements has caused some difficulties in a predominantly agricultural country like India with its tenacious adherence to old ideas and old modes of life and activity.

It is obvious that not much can be done directly to remove this impression in the case of tender children of between five and ten years. The object of primary education has been and must always be to supply that minimum of instruction and—to quote a phrase now invested with much humour by the excellent treatise on the subject of Mr. Mayhew—'useful information' which everybody as a human being and a member of political and civilized society ought to possess. Nevertheless, although the courses themselves cannot be manipulated to serve this purpose, much can be done by infusing a new spirit and new outlook into our primary schools. It is our purpose here to notice some commendable beginnings which have already been made in this province in this direction.

Sometimes, schools have been encouraged to add small gardens to their equipment and to use them for nature study. Although the number of schools with such gardens is almost insigni-

ficant, the results in the case of those that have them are reported to have been very satisfactory. Sometimes prizes have been offered to encourage excellence in their upkeep and maintenance and the emulation aroused by them has been noted to have been a great gain. The improvement deserves a further extension; the investment on it in rural areas cannot be large and the risks of failure are almost nothing.

A far more important departure has been made in adding an 'agricultural bias curriculum' as an alternative to the usual 'literary' curriculum, for the higher standards from the 5th to the 7th. For sound reasons, what has been aimed at is a prevocational rather than vocational knowledge of the general principles of agriculture. The teachers have been very appropriately recruited from the agicultural classes themselves. The boys are made to work for two hours every day and the instruction includes village carpentry and smithing as well. Except in Sind, these classes have been very popular and in some cases the villagers have come forward voluntarily to aid the school with gratis or low-rent plots of ground, etc. Not more than ½ to 1 acre of land is required for the purposes of this course. The growing infusion of the agricultural castes into the teaching army may be expected to supply the requisite instructors without much additional expenditure. Nevertheless, the additional expenditure on this innovation may prove an obstacle to as rapid an extension of it as may be desired. It should, however, be remembered that the per head cost of pupils is comparatively much lower in rural areas than in municipal areas, and to this extent the rural community which contributes also a much larger share to the revenues of the province has an unchallengeable claim upon the consideration of the Government. Between 1923-24, when this change was first introduced, and 1925-26, only 43 schools had adopted this improvement.

Although the aversion of the average educated man to agricultural and other manual labour has made education in general

less popular in rural communities, the attraction of English for many among them has not yet faded. The parents of certain advanced classes among them seem to be very strong in their demand that their children should acquire the rudiments at least of English. In order to satisfy this demand, English classes have been added in some cases to the primary vernacular schools. There were 25 such classes in 1922-23. Some educationists of note are inclined to regard this demand as essentially an uneducational one. They are justified to a good extent in holding this view in so far as our present methods of school-teaching and our staff and time-table arrangements give but little justification for an addition to the already ill-discharged responsibilities of the primary school. But there seems little to be said against the introduction of this innovation in those schools where arrangements can be made for the teaching of the subject by the direct method by means of competent teachers. A good many difficulties of our secondary schools would disappear if the pupils were made to acquire simple conversational English during those early years of life when the acquisition of a new language by the direct method is particularly easy.

We have already had occasion to remark on the regrettable frequency of relapses into illiteracy on the part of those even who have formally completed the whole course of the lower primary stage. The indifferent character of our primary school-teaching is no doubt an important cause of this unrequited waste. But a part of the explanation lies also in one of our social defects which must be taken serious note of, if our progress towards universal literacy is not to be foiled or surreptitiously undermined.

The outstanding feature of our social environment in this respect is the absence of an atmosphere of literacy in the majority of Indian homes; or in other words the dense ignorance of the women-folk. Foreign critics of Indian life are apt to note and comment upon the depressed condition of the Indian women in several obvious respects. But they never seem to obtain any

vivid or intimate realization of the dominating and almost exclusive influence which the adult women of the family exercise over internal affairs and particularly the upbringing of children and boys. This dominance is no doubt disintegrating before the breath of new ideals of domestic life; but for the majority of the young folk it still continues to be a living reality to be counted with but not to be actively resisted. And here it is that the main difficulty of the men-folk, however literate and able, to gauge perhaps vaguely the bearing of a new economic and political situation lies.

Primary education must continue to fail in its purpose so long as it does not enfold within its influence the women-folk along with the men-folk. A literate woman is a far better and surer guarantee of the education of the coming generation than a literate man. An illiterate woman on the contrary is in her own times very often the cause of the stagnation of not only the generation that is slowly growing up but of the generation which is in the prime of life as well. The utter backwardness of the education of girls which we have already noted is therefore an insidious danger which may well undermine and even nullify our best educational efforts.

Another very real difficulty, although comparatively of minor importance, is the lack of facilities for village-people for continuing their contact with letters or enlarging their stock of information. Useful books suitable to the aptitudes and requirements of these people are conspicuous by their almost complete absence in all the five main languages of the province. A meagre grant of about 5,000 rupees has been made for some years to encourage the preparation of readers of an elementary type in subjects like agriculture, administration, domestic science, etc. This magnificent effort is known to official documents as the encouragement of vernacular literature. What literature there exists has not yet found its way to the villages. In 1925, there were in existence only 94 village-libraries for the whole province, the Central,

Northern and Sind Divisions being exceptionally fortunate in having out of them 13, 4, and 5 respectively. It is, however, very difficult to suggest an alternative plan which would be useful without involving disproportionate expenditure. A system of circulating libraries under the direction of peripatetic teachers of primary schools may perhaps meet the difficulty; the establishment of certain continuation-education classes under the village-teacher may abolish it altogether.

Administrative Success of the Act.

We may consider now the administrative success of the Act of 1922.

It may be mentioned here that an experiment in compulsion had already been initiated in this province by the District Municipal Act of 1918. This Act had empowered the municipalities to adopt compulsory education within their jurisdictions and had laid on the Government a statutory obligation of contributing $\frac{2}{3}$ of the total expenditure. Not more than five municipalities, however, had taken advantage of the Act till 1922 and of these four had made compulsion applicable to girls as well as to boys.

The record of the new Act is not in any way better. Till February, 1928, in other words, after the Act had been in operation for more than five years, not more than five municipalities out of 150 and odd had approached Government with schemes for compulsion. Among district local boards, only three have submitted schemes for compulsion and 13 more have made proposals for expansion on a voluntary basis.

Out of these 13 projects for expansion, Government have approved of three, returned one for re-submission in the prescribed form and have not yet arrived at any decision on a few others. As regards the schemes which they have considered and not disapproved, they have been held in abeyance on grounds of financial stringency. It is important and relevant to call attention here to the fact that not less than 14 district boards have already

accepted increased burdens for this purpose by raising the local cess from one anna to two annas.

In these and other circumstances to be narrated presently, it is not surprising if the local authorities have not shown too great an alacrity in assuming the responsibilities vested in them by the new Act. Till so late as the end of 1927 four district boards in Guzerat and one in Sind were yet to take over the custody of primary education.

Thus, it has come to pass that among all local bodies, three municipalities alone have introduced compulsion by February, 1928. In all these cases, compulsion applies to boys only. No district local board has yet ventured to adopt this step. Apart from all these, the Bombay Municipality with its unique position in the province has also initiated compulsion ward by ward from 1925 onwards—although not till after a legal contest with the Government.

It is hardly necessary to add that Government have not yet exercised and for several years are not likely to exercise their power under the new Act to compel an unwilling local authority to introduce compulsion within its jurisdiction.

There is another aspect of the present administrative and educational situation in this province which it would be mere folly to underrate or ignore. The quality of the men who are elected to our local bodies is distinctly very inferior and does not show any indications of improving in the near future. Unfortunately, knavery of a most unscrupulous and unabashed type has also been sometimes added to this already great evil of inadequate abilities and competence. To examine the political and social causes which have led to an absence of capable men in these unobtrusive paths of social service would require a digression too long to be attempted here. But it must be clear even to the most purblind eyes that Nasik, Sholapur and Dharwar local bodies have given us lurid pictures of degeneracy which call for determined and vigorous action if a similar process is to be arrested or prevented elsewhere.

The school-boards which are the educational delegates of these bodies are no exception to these general observations. In most cases, they lack expertness in education, and in some cases, lack of literacy and culturee hav militated against sober and long-visioned views as regards policies. The consequences have been of a most undesirable kind almost all over the province. The most recent example of break-downs in this perhaps most vital part of the Act is furnished by the Nasik Board whose educational achievements have been summarised as follows:—

"It might be stated that Moslem education has suffered severely, that vacations were given according to the whims and fancies of teachers and the village school boards, that promotions were made regardless of system and even reason, and that little attention was paid to the supply of teachers. In a nutshell the report states that education is in the hands of a board which is totally unfitted to be entrusted to such a charge."

It has now become obvious that the pace of decentralization and devolution has been too rapid to evoke the required abilities and devotion to public interests in our local bodies. The working of the Act now calls for urgent improvement in several directions, and its text may even have to be amended in some particulars. The Government must once more make itself even more definitely and perhaps aggressively responsible for the periodic inspection and continuous supervision of the working of all institutions. It must also take definite precautions to ensure a certain standard of efficiency in the teaching staff. Above all, it must make the widest and most determined use of its powers of nominating suitable experts or experienced persons to these bodies, whether from official or non-official life. It may not actively interfere in the administration of the school boards but it should be empowered to submit its own reports to these bodies and to issue, if necessary, any warnings and admonitions. Short of devitalizing the growth and development of a spirit of regionalism

or discouraging local enterprise and enthusiasm, the Government must be restored to all those powers which are necessary to ensure an economic and wise use of public funds.

No educationist in this country has denounced the defects of our state-controlled system in stronger language or more effectively than Mr. Mayhew in his book entitled 'The Education of India.' It is pathetically true that the system has developed little or no personality in the teacher and has for that reason been generally devoid of force or inspiration. The Government departments, accustomed to measure progress by statistics and other concrete evidences, have yoked him to educational codes, curricula and examinations, conformity to the requirements of which is his only title to praise or promotion. On the other hand, his connection with the Government has invited on him, sometimes with justification, sometimes without any justification at all, coldness if not actual avoidance and suspicion from the people at large. In these circumstances, it is little wonder if the teacher has acquired little faith in himself and consequently in his mission.

This criticism, however just in itself, does less than justice to the achievements of the system. It overlooks the important fact that conditions in India did not then permit (and do not still permit) any alternative more promising than this system. The social institutions of the Hindus, who are the bulk of the population, have always run counter to the development of healthy democratic ideals in education as in all other interests of life. Indeed, there is ample evidence to believe that even the foreign administrators of this country almost fell victims in their earlier educational efforts to this social environment. Their confident acceptance of the 'filtration' theory of education is perhaps the most conclusive proof on this point. Taken by itself, there was nothing inherently unsound in the theory. But its actual practice took no account at all of the countless vertical and horizontal cleavages of the Hindu community and the significance of domestic life in

its social and spiritual outlook. For some time, there was even a tendency to move along the lines of easiest achievement and to encourage education in the higher classes alone. It was rather late in their history that British rulers discovered the unexpectedly dangerous consequences of their policy and then recognised their direct moral obligation for the educational upliftment of the masses. A deliberate adoption from the very first of any but a State-directed system of education would have reinforced and made permanent some of the most dangerous features of this environment and postponed indefinitely the emergence of a truly social will and a social purpose

The criticism is no doubt intended to apply with particular force to the institutions which impart secondary and higher education rather than those which are concerned with the lower branches of it. But even as regards higher education, practical statesmanship and speculative philosophy have both so far advanced as to recognise it as the true charge of the State. For, no young citizen can with justice or propriety be left deprived of that training of will and feeling and of that appreciation of the values of life which are a necessary preliminary to a career of citizenship and social usefulness, and which these institutions are designed to give. It is true that the State in India has sometimes pursued or seemed to pursue ends and ideals which were alien to the rational will and aspirations of the people themselves. But this inevitable defect of an equally inevitable political situation should not blind us to the other achievements of the system. Besides, the establishment of genuine self-governing institutions in the provinces may be expected in the course of time to counteract this source of national or class prejudice. After all, immunity from such ignorance and prejudices is to be ultimately sought in the realm of ideas and devotion to the enrichment of the human personality and not in an impossible divorce between the State—which embodies in itself a large part of the social environment—and education.

Educational Finance.

Among the causes of this general failure, the inability of Government to find the necessary funds to meet their obligations under the Act is undoubtedly by far the most outstanding. The following table, which institutes a comparison between the actual Government contribution to primary education and the annual provision which the Chandavarkar Committee[5] expected the Government to make, brings out the magnitude of this omission.

Year.	Total expenditure.	Contribution by Government.	Actual provision for committee's programme.		Committee's estimated Government share.	Ditto for boys.	Ditto for girls.
			Budget	Revised.			
1920-21	...	68	..	...	...	..	...
1921-22	149	101	...	...	...	...	...
1922-23	157	99	...	...	...	..	...
1923-24	166	115	16	10	21	18	5
1924-25	169	108	4.5	5.2	35	36	10
1925-26	181	118	10	6.7	49	52	16
1926-27	..	124	8.5	8.3	60	64	20
1927-28	...	128	9.5	(Rev.	70	74	25
1928-29	...	132	15	Budget)	78	84	29
1929-30	...	..	...	..	8[illegible]	94	30
1930-31	...	..	...	...	83	93	35
1931-32	...	..	...	..	80	92	36
1932-33	...	...	...	...	77	91	38

5 It should be borne in mind that the Committee's estimates of additional cost to Government are based on the assumption that compulsion is to be applied to boys in all cases and to girls in city municipalities while 40 thousand girls are to be added to schools in towns and one lakh in rural areas. The estimates include a provision for children who are outside the age-limits as well. Besides, an annual provision of six lakhs for buildings and 70 thousand for the training of teachers is also postulated in the calculations. The contribution of Government to the local bodies is put at half the expenditure of municipalities and two-thirds that of the local boards.

Another outstanding feature of these figures is the disparity between the allotments made and the actual expenditure. There is hardly a single year in which the expenditure absorbed to the full extent the funds assigned to primary education. In 1923-24 and in 1925-26, the figures of expenditure are actually inflated because in each of the two years, seven lakhs were diverted from the purposes of expansion to an increase in the salaries of primary teachers. This deplorable situation is only partly due to the fact that schemes are sometimes sanctioned although they are not quite definite in all their material details and that sometimes they are not carried out according to the original expectations. Apart from this, the appearance of unspent grants in the accounts of a department which is always sadly short of funds reflects a state of affairs which may well cause genuine indignation to all interested in the cause of education. The remissness of local authorities cannot be pleaded as a valid excuse so long as the Act reserves to the local Government ample powers of interference and compulsion.

Allegations of attempts to evade the financial obligations of the Education Act have been very frequently made against the Government and have been frequently refuted by an appeal to the letter rather than the spirit of the Act. It has been asserted that Government sought to curtail expenditure as much as possible after the passing of the Act of 1922 with a view to lighten its future burdens as regards the datum contributions. Such statements are, however, difficult to prove, and on close analysis may even seem to be contrary to facts. Nevertheless, some of the financial arrangements under the new Act seem rather anomalous. Under the old Act, for example, the district boards were required to spend on primary education four pies out of every anna levied as the local cess. The Government have, very strangely, claimed this expenditure as a part of their datum contributions, which have to that extent been reduced. Again the Government accept no financial obligations as regards the datum line on account of

those municipal, primary and secondary schools which were once private but which have now passed over to the municipal authorities. As a matter of justice, the old Government grants to those schools ought to have been included in the datum lines to be fixed. But since the old grants were more than half the expenditure of these schools, Government seem to have taken advantage of the letter of the Act to escape their legitimate burdens. These anomalies explain in part the lack of enthusiasm if not actual reluctance of the local authorities to assume the charge of their responsibilities. Another and a rather unreasonable heart-burning has been added by the refusal of the Government to grant the share not of their actual expenditure but the estimated expenditure.

The voluntary system, it must have been clear by now, must always impose a heavy strain on the limited resources of this province. It is true that the average number of pupils has on the whole exceeded the minimum limit of thirty prescribed by the Education Committee. It may even be that in municipal schools the numbers actually exceed what may be regarded as an educationally sound limit. The large numbers in the Government schools are justified only by the fact that these schools are used as practising centres for the training of teachers. The table below sets forth the relevant statistics on the subject.

NUMBERS PER SCHOOL

	General average	Government	District Board	Municipal	Aided.	Unaided	Per teacher
1921-22	... 62	.	...	...	...	...	27
1922-23	... 64	150	59	151	46	45	27·3
1923-24	... ...		...	...	..	...	. .
1924-25	... 65	141	59	159	47	46	...
1925-26	... 66	139	59	167	48	40	...
1926-27	... 71	...					97

The number of pupils per teacher, however, seems surprisingly low when placed side by side with the average strength of

the different classes of schools. This fact appears still more extraordinary when it is remembered that about half of these schools have not got more than one teacher each. This seems to indicate a far greater variation of the strength of numbers from school to school than these schools actually reveal. If this inference is correct, then it is clear that the expenditure on some of these schools is rather difficult to be justified when looked at from the view-point of output.

The table below sets forth the cost per pupil from year to year for each class of schools.

COST PER HEAD

	Government	District Board	Municipal	Aided	Unaided
1921-22	36·9	17·1	26·7	13·4	18·4
1922-23 ...	...	17·8	27·6	...	...
1923-24 ...	...	18·1	28·5	...	..
1924-25 ...	22·6	17·7	21·1	15·8	18·1
1925-26 ...	22·4	17·6	27·0	17·1	19·1
1926-27 ...	24·2	17·8	28·8	16·4	20·2

The figures for municipal schools are no doubt comparatively very high. They appear still higher when it is recalled that their average strength is more than two and a half times as much as in the case of the district boards. This fact is no doubt largely accounted for by the preponderance of the multiple-teacher schools among them.

Taking all these schools together, it should be clear that the voluntary system has proved very expensive to the public and is not now capable of any further useful extension. The conclusion will appear still clearer when it is remembered that the programme of the Chandavarkar Committee was framed on the assumption that the initial cost per pupil including charges of inspection would be 20 rupees only and would ultimately fall to 15 rupees when the programme reached its completion. Besides, it should not be forgotten that the foregoing figures are what they are, only

because the quality and real achievement of primary education has been consistently sacrificed to the false and spurious economy of the one-teacher school. This intolerable expensiveness of the voluntary system would appear still more glaring if the schools could be arranged for the purpose of comparing the per head costs on the basis of their number of pupils.

A double-shift system has been tried in several places as a means to the economy of staff and building accommodation. The experiment was in progress towards the end of 1927 in 93 aided primary schools and one Government and 11 aided secondary schools. But it is now generally recognised that the experiment has failed totally—as, indeed, it deserved to fail. Some parents—belonging presumably to the high strata of society,—wish to have their children away from home as long as possible and also feel that they do not receive adequate instruction. The teachers also are not generally equal to the more intense effort required—and indeed clamour very naturally for additional remuneration. On the whole, the inferior teaching which ensues from this not very commendable spirit of economy makes the extension of this system altogether undesirable.

A feature of our present expenditure on primary education is the comparatively very high contributions from provincial funds towards the spread of literacy in the towns. This distribution is palpably unfair since the larger part of the provincial revenues is subscribed by the agricultural country-side. The evil is all the greater because the towns are generally the strongholds of the higher literate castes. The rigidity and deep-seated prejudices of the castes act as a most effective barrier against the filtration of the advantage of literacy on to the rural community.

In our present circumstances, it would be more statesmanlike to concentrate on selected districts in the province instead of frittering away our limited funds in extending this futile and wasteful kind of voluntary system. The colossal failure of it has already been demonstrated all over India by the amazing fact that despite all our statistics of progress and growth of expenditure the

Census of 1921 records the melancholy fact that there has been no change in effective literacy during the decade previous. The adoption of the more rational plan proposed would no doubt excite some ill-informed and heedless jealousy in the districts left out. But this could be effectively counteracted if the first instalment of compulsory education were so arranged as to include one district at least from each of the four divisions. The other districts must for the present satisfy themselves with such resources as the Government can place at their disposal after meeting its liabilities towards the selected districts.

The following table shows the average annual fees per pupil, which are always high in Government and Municipal schools and comparatively very low in the aided and unaided schools.

	Rs.	a.	p.
1921-22	0	10	9
1922-23	0	10	10
1923-24	0	11	0
1924-25	0	10	9
1926-27	0	8	9

It will be noted that it is no part of our present educational policy to raise anything like a tangible revenue from primary school-fees. Less than 4 per cent of the total expenditure has been met out of fees. In Government and Local Board schools, it is an established principle that no child should be barred out because of inability to pay fees. The children of cess-payers are admitted at reduced rates—a concession which has been said to be widely abused in certain parts of the province, notably Guzerat. The number of municipalities which have made education free has increased from 33 in 1922-23 to 43 in 1924-25, and 49 in 1925-26 (the total number of municipalities in the province being 156 in the first-mentioned year and 159 in the last-named).

The housing of primary schools has created not a few diffi-

culties. The figures adduced below present a picture of the position of the district boards on this point.

	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27
Own buildings ...	29.5	29.6	.	29.4	28	...
Partly own & partly rented	4.2	4.2		4.2	4.6	...
Rented ...	17.9	18.0	.	17.7	14.5	...
Rent-free ...	48.4	48.1		48.7	52.9	..
*	*		*	*		
New buildings	21	23	20	24	16	11
Buildings under construction	36	42	24	13	17	30
Buildings extended ...	23	25	10	9	7	24

The predominance of rent-free buildings like chawadies, temples, dharmasalas, etc., is clear. The progress of primary education seems to depend more and more on this source for housing. But it is not difficult to realise that the construction of new buildings on a considerable scale cannot be postponed indefinitely. Till 1925-26, the rules in this connection required the intervention of the Public Works Department and its cost used to work out at the amazingly large figure of 90-100 rupees. But apart from the efforts of the people themselves, it has been demonstrated again and again that buildings of the required quality but on different plans could be erected at a per head cost not exceeding 40 to 50 rupees. The rules regarding reference to or sanction of the Public Works Department have been considerably relaxed in the case of structures which are estimated to cost Rs. 5,000 or Rs. 10,000. Apart from the refusal of the Government to subscribe its share of Rs. 40 per pupil, there is no reason why the building of school-premises by the local boards should not proceed apace.

Educational Services and Finance.

By far the larger part of our expenditure on education is accounted for naturally by the salaries of

teachers. It is obvious that their number in the branch of primary education must always be very large. We have indeed pointed out that this number is at present relatively very inadequate and that this inadequacy is producing very disastrous consequences on the quality of instruction imparted. The following additional figures bearing on this topic well deserve very close attention.

	No. of schools (000s)	Total teachers, Boys' and Girls' schools	Percentage (Boys' schools) Trained	Untrained	Percentage of one-teacher schools. (District Board schools)
1921-22	12.62	...	54.2	45.8	...
1922-23	12.40	29,510	70.8	29.2	...
1923-24	12.55	.	61.1	39.0	
1924-25	12.89	30,651	62.3	37.7	52
1925-26	13.44	32,976	60.2	39.8	49
1926-27	...	34,611	59.1	40.9	55.9

It will be noticed that there are about 2·5 teachers on the average to each school which may consist of from five to eight classes including the infant class. The number of teachers will thus require a material augmentation—to the point of doubling, almost —before we can expect a reasonable standard of efficiency in our primary school-teaching. Yet, in spite of this obvious fact, it is very surprising to find the inadequate number of teachers made into an argument for refusing to consider the claims of justice in regard to their salaries.

Apart from their number, the proportion of trained and untrained hands among them is another important factor determining the size of the expenditure. According to the existing rules, at least half the number of teachers must be trained ones; as a matter of practice this proportion has always been exceeded. No one who has any adequate and well-informed ideas on the responsibilities of the teacher will for a moment think of this proportion as anything else than the minimum one. Yet, there is much

ground to fear that in the onrush of an ignorant and an illiterate democracy, this aspect of the question will be ignored to a very dangerous extent. The attitude of the average member of our local bodies is not materially different from the attitude in regard to servants of certain families which Marshall has described in this manner. " The company in which the children of some of our best families spend much of their time is less ennobling than that of our average cottage . . . Yet in these very houses, no servant who is not very specially qualified, is allowed to take charge of a young retriever or a young horse." From this view-point the efforts which are being made at present to reduce the proportion of trained teachers to the prescribed minimum seem to us of very doubtful wisdom.

The following table presents the relevant statistics regarding the scales of pay of primary teachers.

	Initial pay 1916-17	Sathye-Paranjpye.	Sanctioned scale 1921-22	Revised Scale 23-24 and Sanctioned—25
Unqualified ...	9	20	20	20
Qualified ...	9	25-1/2-30	25	25-1/5-30
1st year-trained	12	30-1/1-50	30[7]	30-1/3-35-1/2-40
2nd year-trained	15	35-1½/1-65	35-40[7]	35-1/2-45-1-50
3rd year-trained	20-25	40-2/1-80	40-60[7]	40-2/3-50-1-60

It may be added here that by usage and tradition, the primary school teachers may receive some additional emoluments from other quarters. He sometimes acts as the branch-postmaster and in that capacity receives from six to ten rupees. Sometimes, he is responsible for the work of sanitation and birth registration and receives for it one or two rupees more. Occasionally he is the secretary to the local co-operative society and draws as such five rupees. But obviously, these uncertain perquisites cannot with propriety or justice be taken into consideration in framing regular scales of pay.

6 Excluding selection grade. 7 Plus allowance to headmasters and first personal assistants based on attendance.

It will be noticed that so far as the initial salaries are concerned, the proposals of the Sathye-Paranjpye scheme have been already given effect to. These initial salaries were accepted by the teachers also as a tardy but on the whole tolerable compromise.

The rejection of the maxima proposed in that scheme has become, however, a cause of grave discontent among these most useful but unobtrusive class of public servants. The immediate excuse for this step seems to have been furnished by the continuous financial stringency of this province rather than any considerations of justice and statesmanship. Dr. Paranjpye, who was the joint author of this scheme and also the first Education Minister of this province, himself took the initiative in throwing overboard the proposals in the Government Press-note of 3rd December, 1923.

Strange to say, the whole question was still under consideration in July last. During the interval, various scales have been examined and disposed of in the usual manner. Most of the schools have in the meanwhile been transferred to the local authorities so that any scales which may be evolved hereafter, will apply to those teachers only who were in Government service at the time of the transfer. But since, by the Act of 1922, Government are empowered to fix maxima and minima for all teachers in the employment of the local authorities, the question may well receive some further attention here.

It must be stated here at the outset that the scales of pay under consideration were revised in the pre-reform days, time and again, in 1885, 1891, 1901 and again in 1919. But except in 1919, when it was raised to Rs. 75 on account no doubt of the pressure of war and post-war conditions, the maximum has strangely remained unrevised at Rs. 60. This omission appears rather extraordinary since it is a well-understood principle that the future prospects of a post contribute much more to the present standard of efficiency than the initial salary, however reasonable, which is attached to it.

It is true that mere literacy has ceased to receive that notice and that deference which were once its own during the greater part of the 19th century. This is another instance, although in a different form, of a happening which is very common in the industrial history of nations. Many kinds of labour have in the past been regarded as skilled when the supply of such labour was limited in quantity. But when the same skill has become in the course of time the possession of the many, it has quickly ceased to be regarded as such and sometimes has even been relegated to the rank of unskilled labour. It is natural that the same fate should have fallen to the lot of mere literacy and perhaps equally natural that the change of attitude should have been extended to the imparters of literacy as well. This appears to be the whole truth that is intended to be conveyed when attempts are made to defend low scales of pay by an appeal to the principles of demand and supply.

But the analogy sought to be established between the lower grades of industrial labour which abound in the economic markets and the services of the teacher does not state more than a half-truth. And like many other half-truths, this particular one is more dangerous than an entire falsehood. It overlooks the important principle that even more than academic qualifications, the possession of certain moral qualities is what makes an effective and real teacher. His ordinary work from day to day is carried on for the most part under the watch and ward of his own conscience and from his interest in the rising generation. The fruitfulness of what work he actually does depends in a large measure not on his intellect and acquirements but his moral personality—an element which rapidly increases in importance as we descend from the teaching of the grown-up to the teaching of the very young. Now it is obvious that this conscientiousness and this personality cannot germinate or develop in an atmosphere saturated with anxieties and discontent as regards the material prospects of life. This is not to deny that the exceptional teacher of genius

will always be available in the service of the noble cause of education, however unpromising the material prospects of life. But to make the exceptional teacher the basis of the policy for the rank and file of the huge educational army is to display a lack of grip and understanding of the practical problems of life which ought never to receive any countenance in really earnest and responsible minds.

There is indeed already a tendency for the educational services to become a veritable cave of adullam for all those who have despaired of any achievement elsewhere and who are therefore in need of shelter from their distress. The best talents of the community—so far as the higher educational services are concerned—are flowing continuously into the corresponding but relatively much better paid executive and other services. As the first Education Minister, Dr. Paranjpye said in a debate on the question:

"I may point out that in some of the communities which find other openings you do not find men coming forward at all to accept posts in the Education Department—they would not even look at these posts in the Education Department because they feel that they can make more money in other walks of life." (4th March, 1922—Debate on the Salaries of Headmasters.)

This is in a large measure the real explanation of the paradox that a substantial part of the best scholarship and academic performance in this country is to be found more often outside our universities and institutions than inside them. The creation of noble traditions and a more congenial atmosphere, the rise of a genuinely interested and appreciative public, the association of honorary responsibilities and administrative precedence, a radical transformation in the ends and methods of teaching, may remedy this lack of talents and intellectual barrenness to a good extent. But they are not likely to be adequate to cure the more permanent evil of the side-tracking of real talents and aptitudes.

Far more disastrous are the consequences of this sadly misapplied parsimony upon the lower ranks of teachers. The posts

in the high schools and middle schools—particularly in those which are privately managed—are almost always regarded as convenient stepping-stones or lucrative interludes to professions like law, business, etc. A large number of those who continue very unwillingly in the service are always tempted to regard it as the prime but by no means the only one means of livelihood. And when we descend down to the primary teachers this consciousness of the relative importance of the profession even is found submerged under the hard practical demands of physical existence.

As was pointed out by one well-informed Member of the Legislative Council—

"One teacher belonging to the barber caste rose to address the Conference (West Khandesh, 1923) and said that he repented that he became a teacher . . . . The speaker said that if he had stuck to his father's profession he would have been very much better off than he was as a teacher."

And again,

"They have taken to tailoring, carpentry, private tuitions and so on, and in one instance which it is impossible I should forget, I met a primary teacher who at night worked in a factory in order to earn 12 annas."

Said Dr. Paranjpye, the first Education Minister:—

"I know a large number of teachers doing the work of cooks or servers at big feasts to make a little money by this means." (17th March, 1924.)

It is no doubt a regrettable mentality which leads many a primary teacher to compare very frequently his own lot with the undoubtedly better lot of the *talatis* or clerks in the Collectors' and Mamlatdars' offices. It may be admitted that the disposition which leads them to avail themselves of any and every supplementary occupation in this land of arbitrary status and capricious human values, falls grievously short of the best ideals of the profession. But after all is said in censure of their short-

comings, it should not be forgotten that they are very largely the human victims of circumstances not of their creation.

Government obligations under the Primary Education Act have sometimes been pleaded as a justification of this policy of depressing the educational services. But this argument seems to us the outcome of a regrettable mentality which takes no account of the supreme end of the State which was epitomised by Plato as 'justice.' Heavy financial obligations may be cited as a legitimate plea for increasing the tax-burdens of those who can well afford to bear them But to adopt a surreptitious policy of making the educational services themselves pay for education and to call upon the primary teacher of all persons to contribute and contribute heavily towards these burdens seems to us the very negation of justice if not the perpetration of a grievous atrocity.

The problem is of the most urgent and vital importance not only for the immediate present but for the future as well. Led as they are at present, the local authorities bid fair to put to shame the Government even in their zeal for parsimony. One and all, they seem to be seized with a most ill-informed and short-visioned hostility to the decent remuneration of the teacher which may well reduce primary education to a mockery. This zeal for economy has been arrested only in those places in which the primary teachers have realised their political power and have organized themselves to force their views on the members of the local bodies. This is an important issue in regard to which the Government would be entirely justified in using their powers under the Act of 1922 to the utmost extent.

The whole problem was well described by a recent competent Committee appointed by the Prime Minister in England:

"It is not merely an improvement in the salaries that is needed, but a revolution in the attitude of the public towards them. Exceptional teachers will always join the profession for the love of the work it offers and the opportunity it presents of fulfilling themselves. These must be a minority; invaluable it is true, but

not to be reckoned with as part of the normal supply. We have spoken of a revolution. . . The new basis for the calculation of salaries must be what the men and women of intelligence, education and vigour might gain in any other profession. There are no doubt compensations in the life of the teacher, e.g., longer holidays; but there are counteracting disadvantages. Whilst the term lasts the work is peculiarly exacting. The salary-earning life is shorter. In no profession is it more important that the members should have reasonable opportunities of foreign travel and wherewithal to purchase books; but foreign travels and the purchase of books impose a heavy tax on scanty incomes."

Attitude of the Council.

The local Council has on the whole interested itself continuously in the spread of education. It is difficult, however, to characterise this interest in general terms. The following observations may perhaps be thought by an impartial critic as not very far from the truth. They are based upon a careful perusal of the following debates which took place in the Council: The Pay of Primary School Teachers, 17th March, 1924; Education Grants, March, 1925; Education Grants, 3rd and 4th March, which debate assumed the form of an exhaustive inquest of the second Education Minister; the University Bill, July and August, 1927.

Communal aspirations have the place of honour in almost all debates. The Muslim and the non-Brahman sections of the Council are gravely dissatisfied with the general backwardness of their communities and are insistingly clamouring for greater encouragement by direct measures like scholarships, etc., and for an adequate representation in the educational services. Their claims are admitted in general terms by the other sections of the Council but these admissions are apt to lack genuineness. Vested interests find a convenient shelter in appeals to ignore communal considerations in political and governmental policies, but more often than

not there is behind these appeals a lurking desire to perpetuate the *status quo*.

Apart from these communal voices, the Council as a whole is apt to lay the greatest stress on the mere quantitative aspects of education. With the exception of one member who is there only because Government have nominated him to speak for the depressed classes, it is difficult to single out one member who has made it his concern to inquire into the quality of education. The personal interest of a cultured member may occasionally raise a debate on the place of free-hand drawing in education. Patriotic considerations may lead some members to advocate measures like Elementary Military Drill (November, 1925). But the higher altitudes of educational thought and even prudence seem rather beyond the ken of our Councillors. A member of the second Council was no doubt epitomising the wisdom of his tribe when he roundly declared—" I say that as far as primary education is concerned, the question of quality does not arise; it is only a question of numbers."

It is little wonder if such an outlook should lead to the enunciation of extremely narrow principles in determining the concrete details of policy. The debates on the salaries of primary teachers have been particularly illuminating on this point. Every member seems anxious not to lose his reputation as the watch-dog of economy and retrenchment. That low quality or ill-equipped schools may ultimately prove terribly expensive to the community would be a thought unworthy of the practically-minded representatives of our democracy. Buy education in the cheapest market but buy it in as large quantities as possible . . . so runs the constant exhortation of our Councils to their Ministers.

There is one accusation, however, from which our democracy of the Legislative Council may well claim immunity. Every member declares himself always willing to vote for any additional expenditure or taxation which may be necessary for the spread of education. But no minister has yet proved himself so bold

as to embark on this Herculean labour. The Education Committee, the Prohibition Committee, and even the Finance Department have indicated and formed estimates of the available new sources of revenue. The tendency, however, is to throw the onus of even initiating the required proposals upon the members of the Council themselves. The triennial ordeal of facing the rude democracy outside probably deters the councillors from pushing their enthusiasm indiscreetly too far.

The actual achievements of the three Councils and the three Education Ministers till July, 1927, compare as follows:

NEW PRIMARY SCHOOLS

	Dr. Paranjpye	M. B. Y. Jadhav	D. B. H. D. Desai
Bombay Division	... ..	5	...
Central ,,	... 28	791	7
Northern ,,	... ...	...	...
Southern ,,	... 13	235	...
Sind ,,	... 74	79	16
Grand Total	... 115	1,110	23

THE COTTON MILL INDUSTRY OF THE MADRAS PRESIDENCY

BY

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People who try to demonstrate the industrial progress of India always indicate the so-called exceptional progress made in the cotton mill industry to prove their thesis. Such people pay little attention to the relative progress made by other countries. The table at the end shows that instead of making any such exceptional progress, the Indian cotton industry has, in fact, been lagging behind in its advance while other countries have been witnessing greater progress.

We see from it that in the first period Italy made the biggest progress and Japan followed her. China occupied the third place, and India comes last but one, the last one being Great Britain. In the second period China comes first, and Japan second, France third and U.S.A. fourth, while India comes sixth out of the eight countries taken. The spindles in India increased between 1920—22, by 0·36 per cent as against a corresponding increase of 3·09 per cent in Japan and the corresponding figures for India and China between 1920—23 are 18·5 per cent and 67 per cent respectively. It is evident that the two chief competitors of India (Japan and China) have made phenomenal progress compared to which India's progress is very insignificant.

Though the spindles in Great Britain have not increased to the same extent, there is less danger, because Lancashire industry mostly deals in fine yarn and high counts when, to make a certain

amount of progress in cotton industry, fewer spindles are needed than would be necessary for producing yarn of lower counts. But no such explanation can be given as regards India, and though some progress has been made in the last decade in producing yarn of higher counts, it is quite probable that as much progress was made in Japan and China. China has been for a long time the chief foreign customer of Indian mills, and Indian twist and cloths have long found a ready market in that country. Now Japan is competing very seriously with India in China and the Chinese industry itself has been making great progress. Before long India and Japan have to search more profitable and responsive markets than China. It is more depressing to find that India has been losing her ground in the Chinese market more rapidly than Japan. If the relative positions of these countries in their progress are to stand like this, the Japanese yarn will come to occupy in the not distant future a prominent place if not in the Bombay market, at least in the Madras market, which is not sufficiently supplied by the local mill industry.

Madras and Bombay Cotton Industries.

A comparison of the relative progress of the cotton mill industry made in these two presidencies shows that (1) there are more mills established in the same period in the Bombay Province than in the Madras Presidency; (2) there is considerably more capital invested both in the aggregate and per mill in the former than in the latter; (3) more capital has been coming into this industry in the Bombay Presidency than in Madras.

During the 50 years between 1870 and 1920 there were established 188 cotton mills in the Bombay Presidency as against 22 in the Madras Presidency. There were started ten mills in 1896, 15 in 1905, 9 in 1913, and 42 during 1919 and 1920 in the Bombay Presidency. During 1920 alone 23 mills were started in Bombay—a number which is more than that of all the mills

in the Madras Presidency. The Bombay cotton mill industry has taken full advantage of the four boom periods.

The total paid-up capital of the Bombay mills was Rs. 255,489,667 in 1921 and that of the Madras cotton mill industry was only Rs. 22,008,495. The average paid-up capital of a Bombay mill was Rs. 1,359,000 and that of a Madras mill was Rs. 1,100,000. Again the biggest mill in the Bombay Presidency has a paid-up capital of Rs. 49,000,000 as against Rs. 11,000,000 of the corresponding mill of Madras. While we have in Madras Presidency only five mills with a paid-up capital of a million and a little more, there are as many as 60 mills which have as much paid-up capital in the Bombay Presidency. There was invested as much as Rs. 5,110,000 every year in the Bombay Province, while the corresponding figure for Madras is only Rs. 440,000.

The Progress of the Madras Cotton Mill Industry.

The Name of the Mill.	Who floated the Company.	When started.
Madras Mills	Bombay capitalists ...	1873
Choolai Mill	...	...
Buckingham Mill of Perambore	Partly Indian and English ...	1876
Carnatic Mill of Perambore ...	" " " ...	1881
Medum Seshanna Mill of Bellary	Local merchants	1883
Calicut Mill	" "	1883
Tinnevelly Mill of Ambasamudram.	English capitalists ...	1884
The Coimbatore Mill ...	" " ...	1888
Tuticorin Mill	" " ...	1889
Madura Mill	" " ...	1892
South India Industrials ...	Indian merchants	1894
Kaleeswarar Mill	" " ...	1906
Coimbatore Mall Mill ...	" " ...	1908
Lakshmi Mill	" " ...	1910

The Name of the Mill.	Who floated the Company.	When started.
Madura Sourashtra Sriram Mill	Indian Merchants ...	1920
Calicut Hosiery Mill ...	" "	1921
Salem Industrials	" "	1921
Kantimati Mill	" "	1922
Sri Ranga Vilas Mill ...	" "	1922
Nalathinputhur Mill ...	" "	1922
Bezwada Mill	" " ..	1922
Radhakrishna Mill of Coimbatore.	" " ...	1923

The two mills in Perambore were amalgamated and were registered as Buckingham and Carnatic Mill Company in 1920. The Bellary Mill failed long ago. The Salem and Calicut Mills and a few others are only hosiery mills.

Thus in 50 years there were only 22 cotton mills started, or about one mill for every two years.

No. of 1881	1891	1901	1907	1908-09	1909-10	1917-18	1918-19	1919-20
Mills 3	8	11	11	11	12	13	13	15
Looms [illegible]	555	1,735	1,748	1962	2,023	2,676	2,716	2,727
Spindles —48,000	173,000	288,000	308,000	319,000	339,500	404,928	404,612	423,232
Hands employed—1,400	5,900	12,600	16,740	18,030	18,860	22,859	23,338	24,116

There is a recovery again between 1910 and 1920.

The total yarn consumed in the presidency in 1920-21 was 66,401,000 lbs., and two-thirds of this was manufactured in the presidency; while one-third was imported. But out of these imports, one-fourth was from foreign countries, while the rest

1 Madras Census Report, 1921, p. 195.

was imported from other parts of India. It is very difficult indeed to estimate how much of this cotton yarn brought from other parts was imported into that part of the country from foreign countries. But there is no doubt that a portion of it was of foreign origin.

The early history of Japanese cotton industry, as far as spinning is concerned, shows an entirely different record. A foreign writer, writing on Japan, observed that "the Japanese were declared to be without organising capacity, incapable of sustained energy, and generally unfitted for factory work."[2] Nevertheless the progress of this industry has been really marvellous. The feudal chief of Satuma started a mill with 5,000 spindles in 1862. During the two following decades there were only one or two factories established for spinning cotton yarns; but between the years 1881 and 1885 however, the period during which private enterprises in Japan finally started upon a career of independent activity, no less than twenty-one cotton spinning factories with 62,000 spindles began operations.

By 1900, i.e., in a period of 38 years, the number of mills had increased to 79 with a total paid-up capital of 30,000,000 Yen, and the number of spindles also increased to 1,088,000 with an output of 201,000,000 Kin. A Japanese writer wrote in 1904 that "considerably over ⅔ of the product remain in the country and the importations of foreign yarns have thus been checked."[3] Thus we see that the Japanese had in 1900 more than 2½ times as many spindles as Madras Presidency has to-day after a history of half a century.

Causes for this slow progress.

Sir A. Chatterton wrote in the Census Report of 1911: "The conditions in Madras are probably less favourable than in any

2 Quoted in the 'Foreign Commerce of Japan.'

3 'Foreign Commerce of Japan.'

other part of India, for the creation of an industrial system on modern lines. Not only are its natural resources limited to agricultural products, but also there is no concentration either of industry or population in local centres which would create favourable conditions for the disposal of local manufacture. The most important deficiency is coal, of which only a few tons have been mined in the Godavari District, elsewhere none has been discovered. Most of the coal consumed in the presidency comes from Bengal either by rail or sea. The Singareni Coalfields are much more favourably situated to this presidency, but most of the coal mined there is exported to Hyderabad and further towards the west."[4] For mills situated near Bezwada, it is evidently more profitable to import this coal than the Bengal coal. It is for this reason in particular that the new mill at Seethanagaram, Bezwada, is established. But it should be admitted that coal of any kind is expensive; and internal combustion engines whether using oil or gas, though more economical and coming more into general use in this presidency, are not suitable for cotton mills which need very large units of power. The only fuel resources the presidency can supply are in the form of wood and it is anticipated by experts on the subject that the Madras Presidency forests can probably be made to yield about ten times as much fuel as they now do. And gas can be produced from this wood and with the gas so generated, big plants can more easily be run.

As Chatterton[5] says, very little use is made of water-power. Except for the two cotton mills at Ambasamudram Falls in the Tinnevelly District, no important attempt has been made to construct cotton mills by the water falls in the presidency. Anyhow, till now power of any kind is dearly bought and fuel is very scarce in the presidency and the slackness in the progress of the mill industry of the presidency is more than a little due to this

[4] Madras Census Report, pp. 197, 217.

[5] Ibid., pp. 197—217.

great drawback. On the other hand, coal is abundant and cheap in Japan.

It is also largely true to say that there is no adequate concentration either of industry or population in local centres. For the whole of the Ceded Districts and the Northern Circars we have only two mills, one in Pandalapaka in the Godavari District[6] and another at Seethanagaram, near Bezwada,[7] the former being more than 75 miles away from the latter. In the whole of the Tinnevelly District, which produces the best cotton of the Madras Presidency, there are only three mills and even these are not in one place but scattered in three places—Tuticorin, Koilpatti and Ambasamudram. There are only two mills in the South Canara and North Malabar but both of them—one hosiery mill and the other the Malabar Spinning and Weaving Company—are situated in Calicut.

On the other hand, there are three mills in Madras, the Buckingham Mill, the Carnatic Mill, and the Choolai Mill belonging to the Mohidean Pichai Saib Co., and they all help to create some sort of a market, both for labour and for yarn and cloth. So also is the Coimbatore market, where we have the Coimbatore Spinning and Weaving Co., Mall Mills Co., Kaleeswarar Mills, Sri Ranga Vilas Ginning and Spinning and Weaving Mills and Radhakrishna Spinning and Weaving Mill. As Coimbatore is a small city and as its industries, other than that of cotton, are of negligible importance, the five cotton mills hold a very important place in the city, and we can say that there is made a veritable cotton yarn and cloth market with all the special advantages that result from it. Then comes the ancient city of Madura, where we have the biggest spinning mill in the presidency, i.e., Harvey Mills, in addition to the two Indian mills. Madura is well-known for its great weaving and dyeing industries, and the local hand-loom

6 This has been converted a year ago into a hosiery mill.

7 This went into temporary liquidation in March, 1929.

weaving industry itself consumes most of the yarn manufactured in these mills. The Harvey Spinning and Weaving Mill, and the Pandya and Sourastra Mills are able to create with the help of the local dyeing and hand-loom weaving, an industrial atmosphere, with its accompanying blessings of internal and external economies. Thus, though we have three fairly well-organised centres—Madras, Coimbatore, and Madura,—we cannot, as yet, claim to possess an industrial centre, to rival either Ahmedabad or Sholapur, not to speak of Bombay.

Slowly the concentration of a few mills in the above centres is producing its salutary effects. It was due to the enormous profits made by the Carnatic and Buckingham Mills that the promoters of the Madras United Spinning and Weaving Mill Company planned their 'Willingdon Mill'—a project which has not yet materialised. The prosperity of the Madura Mill created favourable conditions for industrialists to float the Sri Ram Mills Company, and for the managers of the Madura Mill to add a weaving department. The high dividends realised by the three Coimbatore mills created exceptional confidence among the public in the profitable character of cotton mills, and this chance was cleverly and opportunely utilised by the Kamma capitalists of the neighbourhood, who started the two Pellemedu mills.

Sir Alfred Chatterton wrote in 1911 that "there can be a vigorous and healthy industrial life when it is carried on by the people themselves, that is, they must supply the capital, take risks, enjoy the profits, bear the losses, and above all undertake the management and control of the many branches into which it is divided."[8] But unfortunately most of the early experiments made in the Madras Presidency were conducted by foreigners, and the experience they gained was not fully available to the Indians.

The Buckingham and Carnatic Mills have been managed by Messrs. Binny & Co. The Madura Mill and Tinnevelly Mill and

[8] Industrial Evolution of India by Chatterton, Sir Alfred, pp. 6-7.

the Coral Mill of Tuticorin are all managed by Messrs. A. & F. Harvey. The Coimbatore Mall Mill was originally managed by Indians, but they failed to run it properly and so this and the Coimbatore Spinning and Weaving Mill came to be managed by Messrs. Stanes & Co. All these companies are in the hands of the Europeans; all the old and important mills were with one exception started and run by Europeans; mostly with European capital, skill, and enterprise. All the Indian mills were established after Indians learnt something about the profits to be made, the way to organise the mills and the kind of machines to use. It should also be admitted that the Indian millowners were able to get most of their first managers from the Indian or English staffs of the European-managed mills and they were able to learn what wages to pay to different grades of labour. Till 1906, i.e., for nearly 30 years after the first mill was established in the presidency, Indian enterprise did not venture into this industry. But in the last 19 years as many as 11 mills were established as against one European-managed mill. These figures show clearly how badly the public was handicapped by lack of experience in industrial pursuits and how it has gradually learnt from the European-managed mills. While Europeans started only 7 mills in 30 years, Indians established 11 mills in 19 years, though the European-managed mills have the greater number of spindles. The wages paid to Indian labour were very low, and the hours of work longer until 1921, as was the case in Japan, and there has not been since then much improvement in this respect. The Factory Act of 1922 reduces the maximum hours of working to 11 in any one day, and 60 in any week. Just as the Japanese industry was handicapped by the scarcity of skilled labour, so also, the Madras industry is greatly at a disadvantage in this respect. Though Indian workers cannot compete successfully with Japanese workers in 'deftness and delicacy' of touch, they can soon pick up their work, and so for ordinary skilled work it is only a matter of a few weeks to train up artisans.

The scarcity of managers with good training and the quickness of perception and ability to organise and lead people is a great drawback for the Madras cotton industry. It is only raw people who never had much experience of running mills, that venture into these mills, and invariably they turn out to be bad businessmen. They seek the easiest way of throwing all the responsibility upon others, hoping meanwhile to make decent profit through the commission they get either on production or on sales. They appoint managers, who are acquainted with the technique of the machinery used, and the organisation of labour, but because they do not understand the mechanism of organising and running a mill, they never allow these managers any discretion, but interfere in everything, and the whole thing ends in a mess. Many mills failed because of this defect, and no wonder many people distrust joint-stock companies. Such defects are responsible for the first failures, such as the Sri Chidambara Vinayakar Mill of Koilpatti.

Caste is largely responsible for the lack of enterprise among the people in the South. The Vanians and Vellalans in the South and Vaisyas in the North monopolised the retail trade of the country for a long time past, and the ryots were left without any idea of business. The Vaisyas are a peculiar sort of people; their chief maxim in business is that it does not pay to be honest. Many a time a Vaisya has deceived his fellow-Vaisya or a Kamma or Reddi who was associated with him in commission business of the chief markets of the Circars. So Vaisyas cannot win the confidence of the public. Nowadays there is a tendency among the richer ryots to risk their money in many enterprises such as rice mills, ginneries, and tile factories. Kammas, the wealthiest community in the Guntur, Krishna, Godavari and Coimbatore districts, are venturing into all kinds of businesses. Some of them have begun to take an interest in the cotton mill industry, and there are already four mills in their hands. Another tendency is for the Nattukottai Chetties, who are the richest and most enter-

prising merchants of the South, to take an interest in this industry. The Kaleeswarar Mill is managed by one of them. Nevertheless the fact that the Vaisyas and Vanians, the hereditary business castes, have not taken any interest in this industry, has militated against its progress.

The capital invested in every one of the European-managed mills is greater than that of an Indian mill, and consequently almost every European-managed mill has more spindles than any Indian mill. Hence Europeans started only 7 mills in 30 years, while Indians established 11 mills in 19 years, although the European mills had more spindles than the Indian mills. Most of the Indian mills have a paid-up capital of about Rs. 600,000, while most of the European mills have Rs. 1,200,000 each. None of the Indian mills has more than 50,000 spindles working, while most of the European mills have more than 50,000 spindles. One mill at Madura, the biggest in the presidency, has as many as 245,492 spindles.

It cannot be said that because the prospective dividends from this industry are very small, while the rate of interest on country loans has been as much as 12 per cent, that Indians have been unwilling to invest their capital in mills. For in the last seven years from 1918 to 1924, the average dividends realised by Buckingham and Carnatic Mills, Coimbatore Mill, Mall Mill, Madura Mill and Tinnevelly Mill are 10, 36, 15, 45 and 56 per cent respectively. The dividends realised by the most successful Indian mill, i.e., the Kaleeswarar Mill of Coimbatore, in the last four years, are very much more encouraging; the figures being 1921, 60 per cent; 1922, 50 per cent; 1923, 40 per cent and 1924, 30 per cent, or an average dividend of 45 per cent a year.

The much-discussed habit of 'hoarding' is really overestimated, because there are very few parts which have not come under the influence of new methods of investment—such as land, financing the standing crop and moving the crops, the ginning and pressing factories, rice and groundnut factories, tile factories

and dealing in cloth. The main direct cause for the practice of hoarding was the fear of the bands of plunderers before the British Raj became established, and that has been eliminated by this time through the well-organised system of police throughout the country. Also the rate of interest on all remunerative debts given to ryots has been 12 per cent, which is a sufficient inducement to dig up the little, if any, hoarded money.

But there is another kind of investment, which is akin to hoarding in its non-interest-bearing quality, i.e., investment in jewellery. That there is an immense amount of money invested in jewels, no one will deny. But, we shall have to note that the general tendency among the middle-class people is to replace heavy and more costly jewels by less costly but more delicate and artistic ornaments; and thus the expenditure on their jewels is fast coming down. On the other hand, there have been additions to the jewel-wearing public, since the increasing economic prosperity has enabled more and more people to earn and wear some jewels. So the increased expenditure, due to these new people, may be sufficient to offset the lessened expenditure upon jewels by the more fashionable classes. It is probable that there is no increase in the expenditure upon jewels from year to year, and that the same amount of precious metals, that are in use in the form of jewels, is used in different forms from year to year. In any case, the additional expenditure upon jewels from year to year forms but a negligible part of the annual national surplus income which is in search of investment.

A greater obstacle to enterprise than these is the fact that an Indian, who has money, has learnt from bitter experience not to trust his money with others. The failure of the famous Arbuthnot Co. is a classic disaster in the presidency. Most of the joint-stock companies, registered just after the war, in the great boom of 1919 and 1920, ended in failure. Out of the 15 new enterprises in the Telugu country, 14 failed. The Guntur Cotton, Jute and Paper Mills Co. ended in a scandal, and the people believe

even to this day that some lucky people made much money out of it. The Guntur Andhra Karmagaram has also failed to work well and one of its engineers was convicted for misappropriation.

The Carnatic Paper Mills Co. of Rajamundry has just emerged out of a scandal and the new Weaving Mill at Bezwada has gone into temporary liquidation. Whether real mischief has been played or not, once when there is a trouble with such a company, people refuse to believe that those interested in floating them are honest. Thus the Madras public have lost what little confidence they had in co-operative efforts in business, and they all favour individual efforts in business in preference to joint-stock companies. Progress in the number of mills, and spindles worked, needs the first requisite, i.e., the existence of an instinct for co-operative working, which at present is but slightly developed.

Lastly, investments in land are in great favour with all classes of people. From the Panchama who can only invest his labour, to the rich ryot who does a lot of rural banking, every one is passionately anxious to invest his capital or savings in land. A man who has land worth a lakh of rupees is much more respected than a man who has ten lakhs of rupees invested in industries, and so most of the new capital that is annually coming into the market is finding its way into investments in land. Such avenues of investment as the Mopad project in which alone Rs. 10 lakhs were invested, the Mettur project, the Divi project and the Bheemavaram project are all being financed by the people. Large sums of money are being invested in bringing waste and marshy lands under cultivation, occupying the Nizam's lands and cultivating them, clearing forest land, pumping water from drains into lands which are thus converted into paddy-fields, and planting casuarina and groundnut on sandy tracts hitherto considered waste. The returns from such investments are expected to be as much as 20 per cent, if not higher; and this is the only sort of investment about which every ryot is well informed. Though foreigners like

to believe that Indians are more sociable beings than many other nationalities, they are, I am afraid, most individualistic as far as business is concerned. They dislike to do business in co-operation with others and frequently the co-operative efforts in business end in failures because the standard of business morality is very low, and business-people are very short-sighted. The watchword, therefore, in Indian business is to distrust everybody. Investments in land are more in their line, because they can individually invest in land, cultivate it and reap the profits or losses by themselves, without having any interference from anybody. They all possess the skill to cultivate, the ability to market the produce and the knowledge about the character of the seasons, and they are invariably good organisers of their farms. Hence only a small part of their annual savings seek investment in industrial enterprises.

Although it is true that many Brahmin Vakils of the different towns in this presidency manage to invest almost all their savings in land, there are still large numbers of urban middle-class people who are unable to find proper avenues for investing their savings safely and remuneratively. Still more is it true in the case of the professional classes and the other sections of the middle-classes of such cities as Madras, Madura, Cocanada. Prof. T. K. Dorasami Aiyar says: "Members of the upper middle-classes and the richer classes find themselves in possession of spare funds which they find rather difficult to invest profitably. Agricultural land does not offer sufficient attraction, especially since many of them are town-dwellers and consequently are not in a position to profit from agricultural investment which will pay only under personal supervision. Houses, except in big towns and cities, are not an income-yielding property and consequently are not an attractive object of investment. Private money-lending is attended with considerable risk. Government Loans and Post Office Cash Certificates are first class security but the return realised from them is not sufficiently attractive to most people."[9]

[9] New Era, November, 1928.

Table showing the increase of spindles in the most important countries of the world.

Country.		1910	1914	1920	1922	August 1923
India	..	4,945,000	6,500,000	6,689,680	6,714,000	7,927,938
Great Britain	...	45,5000,000	56,300,000	58,692,410	...	...
U.S.A.	...	19,474,000	32,107,000	35,872,000	...	...
Japan	..	1,274,000	2,750,000	3,690,090	3,804,000	...
China	...	550,000	1,000,000	1 600,000	...	2,671,950
France	...	5,500,000	7,410,000	9,400,000	.	...
Germany	..	8,000,000	11,550,000	9 400,000	..	...
Italy	...	1,940,000	4,620,000	4,514,800	.	...

ECONOMIC SURVEY OF MIRANPUR BASAHI VILLAGE, BENARES DISTRICT

BY

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INTRODUCTORY

Miranpur Basahi, a village in the neighbourhood of Benares City lying at a distance of about four miles from it, is divided into two blocks by a road passing north and south from Sindhora to Benares City. The village is attached to Benares tahsil for the purpose of collecting revenues, and forms a part of the Shiupur pargana with its police station at Orderly Bazar, near the courts. It is situated at a distance of about 2½ miles to the north-west of the Benares Cantonment Station on the E.I. Railway.

The village is an ordinary type of its kind and can hardly claim to lead the life of self-sufficiency of the by-gone days, although the disintegrating forces have not had their full play as yet. It is becoming dependent more and more for its life-blood upon the neighbouring city, where most of the male members, including boys of eight to ten, go to work in mills and factories.

Boundary

The village is surrounded on all sides by the cultivated areas of the neighbouring villages. On its northern side is located the village Lalpur, on its eastern side Anaula and Takhtakpur, and on the southern and western sides lie the villages of Sarsauri, Narainpur, Lachimanpur and Nawalpur in order.

Soil

The village is no wise connected with any river, forest or hill. The soil of Basahi, as judged by its productiveness, is wonderfully fertile and presents little

variety. The surface of the village is flat, and the soil is generally alluvial in character. Of the total cultivable area of 183.45 acres, 57.12 acres have *do-mat* or deep alluvial soil; 36.42 acres have *tal-matti* or soil in the neighbourhood of tanks fit for rice cultivation; and the soil of the remaining 89.91 acres is light and sandy in character, and certain spots are porous and dry.

The three *purwas*

Basahi village can be divided into three distinct groups. The village is not a compact whole having all the houses centred at one place, but its inhabitants are divided into three *purvas*. The first division which lies on the western side of the road is known as *Ahirtoli*, the place where the Gwalas live. The second *purva* lying on the eastern side of the road is known as *Kunbian*, where Kurmis predominate. This division is very thickly populated and the houses are built very close together. On the far eastern side of the road lies the *Chamartoli*, the third division inhabited by the Chamars exclusively, who lead a dirty life.

Number of houses

The number of houses including straw huts and *chaupars*, but excluding thatched *atanes* from where the farmers watch their fields and temporary huts in the fields, is about 107. Besides these there are one *serai* and two small park gardens bounded by earthen walls. Of these, 68 houses are occupied by the Kunbis, 10 by the Gwalas, 14 by the Chamars, and the remaining 15 by the Kaisthas, Gadarias, Nonias, Brahmans, Kshattriyas, Lohars, Telis, Nais, etc., each sect having one to four houses for itself.

Their description

There is a remarkable contrast between the representative houses of the Ahirs, Kurmis and Chamars of the village. The houses of the Ahirs are less decorated and simple in style: tiles, straw and bamboo are the chief materials for roofing, and the walls are made of soft soil. Some houses of bricks have been recently

built, and in front of them beautiful though crude figures have been painted. The houses of Kunbis are smaller than those of Ahirs—suitable houses for pigmies to dwell in. These are very closely packed together. The Chamars being the depressed class of the Hindu society have poor and odd-looking huts to shelter them, and they seem to be contented with their lot. In all these houses the provision for ventilation is very defective, and they are so closely built that it is difficult to distinguish them from one another. Apparently there is no unsatisfied demand for housing, as many of the houses lie vacant, two Telis having recently left the village. There is some demand for housing accommodation in the *Kunbian* division, where the houses and huts are so thickly clustered together for want of space.

Distribution of population.

The total population of the village, as estimated by actual enquiry, is about 629 persons—a figure slightly higher than the Census figure of 1921. Of this total, 290 are Kunbis, 80 are Chamars, 61 Ahirs, and others 191. Their percentage is as under:—

		Population	Percentage
1.	Kunbis	290	46%
2.	Chamars	80	13%
3.	Ahirs	61	11%
4.	Others ...	191	30%
	Total ...	622	100%

Civil conditions

The civil conditions of the village are fairly normal. The village women do not observe *purdah*, and the custom of widow marriage is prevalent in the village, specially among the low-caste people. There are a few people who are left unmarried, for marriage is deemed to be a necessity in India. The number of widows is

limited; only those remain widows who lose their husbands at an old age. The percentage of married men and women is fairly high, the reason being that child marriage is not discouraged. The average age of marriage is a little over eleven years, but cases are not wanting where the Kurmis of the village marry their children even at the age of two to four years. The Brahmans and the Kshatriyas generally marry their girls when they have attained puberty. The question of large dowries among these people is positively harmful, and needs to be discouraged. The following figures are suggestive. They show the distribution of the village population according to sex and civil conditions.

DISTRIBUTION ACCORDING TO SEX AND CIVIL CONDITIONS.

		Male.	Female.	Total.
1.	Married ...	214	221	435
2.	Unmarried ...	121	73	194
	Total ...	335	294	629

AGRICULTURE

Like all other villages of India, Basahi is an agricultural village. It comprises an area of 219 acres or nearly 351 bighas and 9 biswas. Of this total, 183 acres, or nearly 83 per cent, constitute cultivable area under different farmers. The remaining 17 per cent is under common waste, and under *ābādi* and *tālabs*. Figures showing the distribution of land are as follows:— Area

How used.	Area.	Percentage.	Remarks.
	Acres		
1. Under cultivation ...	183·45	83·45	About 20 acres were left as fallow land.
2. Under the *abadi* ...	13·37	6·0	...
3. Under common waste	12·33	5·5	These are grazing grounds for cattle.
4. Pastures other than common waste ...	*Nil*	...	
5. Under the gardens ...	8·62	4·0	...
6. Wet-land area ...	1·89	1·0	This is under *talabs*.
7. Dry-land area ...	*Nil*	...	Rains are sufficient and the Ganges is very near the place.
Total Area ...	219·66	100	...

A close scrutiny of the above figures gives us two most interesting facts—*one* about the occupation of the people, and the *other* about the density of population. Of the total village area of 220 acres, no less than 183½ acres are classified as area devoted to agriculture, of which nearly 20 acres lie fallow every year. This means that 163½ acres, (or nearly ¾ths of the village area), are under the plough. Agriculture is, therefore, the mainstay of the people, and nearly 50 per cent of the people (315 out of 629) are actually engaged in agricultural work.

Density of population

The uncultivated area comprises a small portion of land: it includes the *ābādi* area, the common waste land and the pastures, the wet areas and the gardens. From the above table we find that nearly 13½ acres of land are reserved for habitation purposes. Within this space about 107 houses containing nearly 630 souls are built up, giving an average of eight houses to the acre, or nearly 47 persons to the acre. Each person has, therefore, on an average about 100 sq. yards of land to live upon,

revealing to us the fact that there is no overcrowding in the village on the whole. It must, however, be remembered that the *Kunbian* portion of the village is a bit thickly populated, showing a tendency for overcrowding in the future.

Other figures in the table need little comment. Some 13 acres are common waste land for the grazing of cattle, there being no pastures in the village Also there is no dry area in the village, owing to the fact that there are ample rains; and that the village is only five miles away from the Ganges river. The area under the gardens is about nine acres only.

There are only 18 wells in the whole village. Of these, 12 are within the village *ābādi*. These are used mostly for drinking, cooking and bathing purposes. The remaining six wells are either on the road side or in the fields, and are used for irrigation. Besides these there are eight tanks in the village. The most important of these is the Bitāl Bhutt tank—an artificially made tank deriving its name from the present owner of the village. Other tanks are small and shallow, and get dried up in the summer. Hence these are unfit for irrigation purposes, except in the rainy season. The quantity of land irrigated with the help of these wells is about 114 acres; the remaining 70 acres either do not need irrigation, or else they are left unirrigated. The wells of the neighbouring villages are also made use of by the people of this village for irrigating their fields. Irrigation

The village is held under the permanent settlement, and the chief owner is Chhanu Jee Bhutt, a wealthy merchant of Benares City. He realises his revenues from his tenants and, in his turn, pays to the Government a fixed sum of money every year. Rents are mostly paid in cash, although sub-tenants sometimes pay in Tenancy

kind by giving half the produce raised by them. There are four classes of tenants in the village, and the total cultivable area of 183·36 acres is divided according to the tenancy rights as follows:—

		Acres	
Sir land	...	1·59	1%
Occupancy tenants	...	73·98	41%
Shikmi tenants	...	72·30	40%
Fixed-rate tenants	...	27·94	15%
Sub-tenants	...	7·55	4%
Total	...	183·36	100%

Size of a field

The total area under cultivation is divided into 530 fields. The area of the largest field is 7·33 acres, and that of the smallest field 1/100 acre, the average size being 3·66 acres. Jai Mangal Singh is the biggest land-owner in the village, who cultivates about 16 acres of land. The fragmentation of holdings is a very prominent aspect of agriculture in this village. No less than 426 out of 530 fields are under one bigha in area. Thus over 80 per cent of the fields are only small patches of land. The distribution of fields according to the size of a holding is as follows:—

		Fields.
Under 1 bigha	...	426
Over 1 bigha but under 2 bighas	...	92
,, 2 bighas ,, ,, 4 ,,	...	9
,, 4 ,, ,, ,, 6 ,,	...	1
,, 6 ,, ,, ,, 8 ,,	...	1
,, 8 ,, ,, ,, 10 ,,	...	nil
,, 10 ,,	...	1
Total	...	530

Fragmentation of holdings

The above figures disclose a serious state of things. This extreme sub-division of holdings which is certainly deplorable, is chiefly due to the laws of inheritance of the country. The Agra Tenancy Act of 1926 has made some provision to effect exchanges of the plots of land so as to consolidate them into bigger plots to avoid unnecessary waste of time and money, but on enquiry it was found that the cultivators are not anxious to effect such exchanges. This evil of fragmentation gets still more intensified by the scatteredness of the holdings of a farmer all over the village, instead of their being concentrated in one spot. This evil deserves serious attention of every social reformer. Co-operation would be of immense help in solving this problem. The example of Tharpur village in the Punjab is a living tribute to co-operation, and shows what co-operation has done in effecting the consolidation of holdings. Not only the number of the fields has been reduced from 844 plots to 63 plots, but their average area per plot has been raised from 4 kanals to 55 kanals.

Need for co-operation

Area under crops

The Kurmis of the village raise mostly 'cereals'—rice, wheat, barley, maize and millets—the area under crops being 138 acres on an average per year. Pulses are grown as mixed crops. Garden crops, including sugarcane, potatoes, chillies, etc., and fruits cover nearly 30 acres of the area. Nearly 20 acres are devoted to the production of fibre plants. Other crops are of minor importance. The statistical details about the crops are as under:—

	Acres
Rice	39·22
Wheat	9·74
Barley	60·80
Wheat and barley	5·48
Gram and maize	22·73

	Acres.
Arhar and Jawar...	21·11
Vegetables and fruits	20·68
Fibre plants	20·20
Sugarcane	13·84
Mixed crops	6·28
Other minor crops	6·19
Total area sown ...	226·20

It will be noticed from the above details that barley and rice are the two most important staple crops of the village, and wheat is grown as a subsidiary crop only. The total area actually sown is 220 acres, but the above figures are slightly in excess owing to the fact that certain crops are sown side by side in the same field. We have already seen that the total cultivable area is 183 minus 20 acres, that is, 163 acres only. Most of this area is sown twice in the year. Only a minor portion of land is devoted to the production of one crop in the whole year, and some to the production of even three crops in the year, as will be evident from the following table.

One crop in one year raised on			19·7 acres	or 9%	nearly.
Two crops	,,	,,	186·26 ,,	84·5%	,,
Three ,,	,,	,,	13·84 ,,	6·5%	,,

Insect pests and plant diseases

The crops raised in the village are subject to the danger of insect pests and certain plant diseases. There are certain pests that injure all crops alike, e.g., the white ants. These begin their work as soon as the crops are sown. Sugarcane is the chief victim of white ants. To combat this evil the villagers either smear the pieces of sugarcane with the solution of asafœtida, the smell of which keeps the white ants away; or they

spread cowdung on the edges of the field to keep the white ants away from the sugarcanes; or they sprinkle ashes of burnt wood to render their teeth useless in eating. Then there are pests that affect particular plants. Thus the small and green pests known as *Jhānsī* attack the vegetables in swarms and eat up the leaves. Ashes of burnt wood when sprinkled on the leaves disable these germs from eating away the leaves. Again there is a moth known as *Chiḍuli* that bores a hole in the stalks of plants, and goes on eating until the leaves of the tree begin to grow pale. The farmer tears the plant and throws the moth away. Rice is attacked by *Karrā* which resembles a fly. It eats the leaves of the plants. The farmers do not know any remedy for this pest, except to drive it away again and again. The enemy of *sarsaon* (oil-seed) is *Māho*, a small green insect hardly visible to the eye. They cling to the plants from top to bottom and render them absolutely useless.

Plant diseases

Besides these insect pests there are several plant diseases. Wheat suffers from *Girui* which makes the plant pale and useless. Alsi suffers from *Hardā* in much the same way as wheat. *Kanḍuā* affects barley turning the ears of barley black, so that when pressed with fingers, they get reduced to black powder. Millets suffer from *Bānjhā* on account of which there comes out a knot of folded leaves instead of an ear on the top of the millets. Gram suffers from *Ukhṭā*, which turns the plants dry altogether. It is deplorable that no regular methods to combat these ills are known to the villagers. They think that these diseases are caused by some defects of the atmosphere and of the land. It is extremely necessary to devise some means to fight out these pests and diseases.

Implements and manures

The people of the village, being conservative in their habits are even today given to their old practices.

Improved methods of cultivation are either unknown to them, or else they are not able to make use of them owing to their poverty. The cost of production has increased considerably in modern days, and even the most efficient farmer has to face real difficulties in producing and marketing his crops successfully. In most cases farmers have to lead a hand-to-mouth life. Generally speaking, the old types of ploughs and instruments are still used in the village, although some farmers have begun to use better types of ploughs that leave a deeper and wider furrow. What is true of implements is equally true of manures. The traditional manures are used even today. All the filth and dirt of the village is deposited at one place and is left to decompose. This waste matter, and the dried and decomposed leaves of the trees, are the chief sources of manure in addition to the cattle dung and urine. It is indeed unfortunate that nearly 50 per cent of the dung is utilised as fuel instead of being used as manure. The modern fertilisers and manures are not known to the villagers, and even those who know their value find them to be very costly.

Manures

Live-stock

The live-stock of the village is largely possessed by the Kurmis and Ahirs of the village. There are about 100 oxen and bullocks, two-thirds of which belong to the Kurmis. The number of cows and calves is 45 and 61 respectively. There are 160 sheep, 24 goats, 50 rams, and 2 horses. The details are given below:—

	Ahirtoli	*Kunbian*	*Total*
Oxen ...	17	61	78
Buffaloes ...	18	3	21
Cows ...	22	23	45
Calves (of cows & she-buffaloes) ...	23	38	61
Goats ...	24	*nil*	24

		Ahirtoli	*Kunbian*	*Total*
Sheep	...	160	*nil*	160
Rams	...	48	2	50
Horse	...	*nil*	2	2
			Total ...	441

The live-stock of the village is poor both in quality and in number. Animals are not capable of doing strenuous work. They are ill-fed and ill-cared-for. The arrangements for supplying fodder for cattle are wholly inadequate. Their ordinary diet is a mixture of *khali* and *bhusa* in water, but only the rich are able to provide these in sufficient quantities. There are no regular grazing grounds or pastures kept for the purpose of feeding cattle. Poor feeding

The cattle of the village are subject to certain peculiar diseases, the most common of these being the *Chābhā*, which produces swelled lumps in the necks of cattle. Lime is used to cure it. Sometimes swelling in the stomach also appears, which is treated with the solution of a newly grown bamboo-plant. Wounds also appear under the yoke; to cure these kerosene oil and phenyl are made use of. Cattle diseases

OCCUPATION, TRADE AND TRANSPORT

As already stated, the main occupation of the village people is agriculture. Of the 629 persons, no less than 315 or nearly 50 per cent are engaged in agricultural pursuits. The rest of the persons are either children or dependents, or pursue some other calling. People also combine certain other subsidiary forms of occupations with agriculture. A certain number of persons are engaged in petty posts such as the Quanungo, the Patwari, the teacher, and cooks and bearers. The Occupations

Gadarias, the potters, the blacksmiths and the barbers carry on their usual trades as of yore. In *Ahirtoli* the Gwalas carry on the work of supplying milk in the city, in addition to their agricultural operations on a small scale. Most of the young men of this part have now taken to the painting of lorries, motor cars, carriages, etc., for want of any other suitable occupation. The industrious Kurmis still carry on their agricultural pursuits to a large extent, although a few of them have recently taken to the painting business. There are also one or two petty shop-keepers in the village who supply mostly tobacco, salt, cheap grains, etc. Some of the village people have opened shops in the Orderly Bazar near the Benares Kutchery. In *Chamartoli* some 12 families of the Chamars, one of a potter, and two of basket-makers live. The potter makes earthen pots, and the basket-makers prepare baskets for the village people. But the Chamars of the village now mostly serve as cooks and bearers to the European officials in the Cantonment and their wives work as *ayahs* to the European children.

Industry and trade

On the whole the people of the village are industrious. The Kurmis are diligent, honest and hard-working, but the Ahirs possess dirty habits and are great cheats. The industry and trade of the village is on a very limited scale, and hardly needs any mention. The old village industry of hand-spinning and weaving is not at all practised in the village. Other industries such as those of the potter, the carpenter, the basket-maker, the blacksmith, etc., are carried on only to meet the needs of the village people. Since the industries of the village are in a state of backwardness, the means of transport are naturally undeveloped and old-fashioned, although there is one *pucca* road connecting the village with the city and the railway stations. Most of the daily needs of the village people are supplied by

the neighbouring village of Bhojubir lying at a distance of about half a mile from the village under investigation. It is therefore well connected with markets, although the means of transport are wholly inadequate and primitive by nature.

The *Charkha* movement of Mahatma Gandhi did awake the village people to the need of starting and developing the hand spinning and weaving industry as far as possible, and the majority of the people at once took to the occupation in 1922, but with the downfall of the movement the industry was altogether given up. There are no weavers in the village to continue the industry. Moreover, the Moti Cotton Mills, which lie close to the village, besides supplying plenty of work to the labourers, supplies them with quite cheap and decent cloth for their daily needs. Hence there is no scope for this indigenous industry to thrive so far as this village is concerned. Again, the soil of the village is not suited for growing cotton, which is the chief raw material to work upon. This is an additional reason for the neglect of the industry in the village.

Handloom spinning and weaving

No scope

To maintain our cottage industries in an efficient manner the spread of co-operation is absolutely necessary. It is, however, deplorable to note that few people, if any, realise the benefits of co-operation in developing our home industries. If the various trades and industries be started on a co-operative basis, there can be hardly any doubt for their success in the future. By this means the people will learn the lessons of self-help, honesty, fellow-feeling and thrift. In the long run they will be able to earn larger incomes, and thus raise their standard of living by and by. The failure of the movement in the United Provinces is largely responsible for turning away the minds of the village people from

Need for co-operation

its adoption. The true spirit and principles of co-operation have not been rightly understood by the people, and the lack of character of the members is one of the chief causes of failure of the movement. The illiteracy and ignorance of the people gave occasion to the dishonest secretaries and supervisors to mislead and deceive them. These facts account for the failure of the movement, and the loss of faith in the societies.

Trade and transport

The trade of the village consists primarily in the scale of foodstuffs, and chaff produced in the village itself. Sometimes the whole crop is sold at the village field, but mostly it is taken to the markets in the neighbourhood for sale. The village people being generally illiterate and ignorant have not the tact of a businessman, and hence fail to get as much as they ought to. Generally they carry their crops to the market in bullock carts, on pack-animals, or on their heads, as may be convenient for them. The trade and transport of the village has been carried on in the old style for centuries with a few minor changes here and there. The trade in milk, ghee, dung-cakes, wood-fuel, earthen pots and wooden goods is carried on on a pretty large scale in the village, and the proceeds from the sale of these things are in some cases quite sufficient to meet the needs of the village requirements at the present day in India. The methods of co-operative marketing, and of purchase and sale would be of great help in securing fair prices for the cultivators, and in providing them with cheap raw materials and instruments. Moreover, the profits of the middle-man would be eliminated altogether, and the farmers would be the gainers to that extent. Also many other wastes incidental to individual production and sale would be avoided to the advantage of the village people.

Co-operative marketing

LABOUR, WAGES AND INDEBTEDNESS

Labour and wages

The labourers of the village are mostly engaged in ploughing, sowing, irrigating and other similar operations connected with agriculture. The wages are paid partly in kind and partly in money. There are some labourers who keep their ploughs and bullocks to let them on hire system to the *zemindars* and big *kashtkars* who do not own them, and are paid at the rate of Rs. 2 both for his labour and for the hire of the plough and the bullocks for a day's work. Some of the villagers keep their own ploughs and bullocks, and hire workers to handle them, and also to do other agricultural work in the fields. These labourers are paid in money, and receive a small quantity of *chabena* every day. Some labourers are paid monthly, fortnightly or weekly, with some quantity of grains as agreed upon. One striking feature of the village is that women are employed to work on the sugarcane fields, whereas this work is done by men in other places. These women generally earn two annas per day, and a small quantity of *chabena* in addition to the money wages. The general rate of wages in the village is eight annas a day for adult labourers. Some *chabena* and *gur* is also granted for their daily breakfast.

Savings

The income of the labourers is not so great as to enable them to make any savings, nor are they frugal by habit. Thrift is something foreign to their minds, and they lead a life of abject poverty. There are, however, some families that save whatever they possibly can. Bansh Narain, Ram Newaj Daftary, Tulsiram, Ramdass and a few others are able to save something. Much of their saving is in the form of ornaments for their family; and the little amount of money saved by them is kept buried underground, as there are no banks

in the village to encourage savings in the form of deposits.

Indebtedness

Most of the village people are under heavy debts, which they are not able to pay off. The farmers need tools and seed and bullocks for their agricultural work. For this they are obliged to borrow money at high rates of interest. Then they have got ceremonial and domestic expenses. Some money is needed for these too. As there are no *mahajans* in the village, people borrow money from the city *sowkars*, B. Raghubir Singh of Ishwargunj, and Munnilal Kalwar and Dwarika Nonia of Pandepur. A debtor borrowing Rs. 14-4-0 has to pay Rs. 20 in twenty instalments of one rupee each. Hundi system is also in vogue. The rate of interest is 20 per cent to 24 per cent per annum compound interest. According to the *rahan* system a debtor pays 10 per cent to 12 per cent per annum compound interest. Farms of the fixed-rate tenants are sold on *rahan*, the rate being Rs. 100 to Rs. 150 per bigha according to the fertility and the Government revenue of the land. Only one debtor, Raghunandan Kurmi, has liberated himself from indebtedness through his ability and hard work. The illiterate villagers are quite ignorant of the usefulness of the Co-operative Credit Movement in solving the problem of indebtedness. There is no common fund, permanent or temporary, for any common good whatsoever. Even the *takavi* loans are not availed of by the village people to meet the seasonal expenses in connection with their agricultural work.

SANITATION, EDUCATION AND ADMINISTRATION

Sanitation

As already stated, the houses of the village people are old-fashioned, low and ill-ventilated. People are

very dirty by habit, and collect heaps of dirt and waste matter here and there without discrimination. The drainage system is entirely defective, favouring the multiplication of insects like mosquitoes which are the chief source of malarial fever. The paths in between the houses are very narrow, hardly allowing one man at a time to pass through them. These paths are mostly used by the villagers as urinals, at the great disadvantage to their health. The atmosphere outside their houses is rendered foul by the heaps of refuse and cowdung that are left to decompose to be used as manure for their fields. It is highly desirable to deposit this waste matter in pits away from the dwellings, preferably in their own fields or near them.

Wells and tanks

Wells are indiscriminately used both for bathing and drinking purposes. They generally take their bath by the side of the wells, and spill much water, which, owing to defective drainage system, is left to stagnate, and serves as a breeding-place for mosquitoes and other insects. People also go to take their bath in the Basai tank where *dhobies* also come to wash clothes. This practice needs to be discouraged.

Epidemics and diseases

The village has not been visited by any epidemics like plague or cholera for the past three or four years, although seasonal diseases, like malaria, do make their appearance. That great enemy of humanity—tuberculosis—is fast making its home in the village, to check the spread of which sanitary measures are absolutely necessary. It is sad to note that there are no doctors or hakims near the village to give medical help when needed. People generally go to the hakim at the Orderly Bazar in cases of ordinary illness, but in serious cases they go to the Government hospitals in the Benares City.

Generally women do not observe *purdah*, but some

Purdah and early marriage

high-caste people have it in their families. This produces a bad effect on the health of the ladies by checking their activities. Early marriage too has got a detrimental effect upon the health of the married couple. Both these practices need discouragement, as children born of such parents are bound to be weak and puny.

Education

The people of the village are not well-educated. Only four or five per cent of the people know how to write their names, and there are only three persons who know something of the English language. There is a great want of education in the village, but the people are quite indifferent towards it. It is said that there was once a primary school in this village, but now it is no longer in existence. However, at about a distance of a mile from the village, there is a primary school at Bhojubir, where the children of the village go to read and write. They are mostly given education in Hindi and Urdu vernaculars. One boy of the village attends the Vernacular Middle School at Shiupur, about two miles from his home. Two other boys read at the London Mission High School, one of whom has appeared at the High School Examination. The average period of school life of the village children is low, and may be roughly estimated at about five years. The following table gives the details about education in the village:—

Name of the school	No. of students	Caste	Class
Bhojubir Primary School...	2	Ahir ...	Darja A and B
" " "	2	Kaisth ...	" A and B.
" " "	1	Kurmi ...	" A.
Shiupur Middle School ...	1	Kaisth ...	" 5th.
London Mission High School	2	" ...	One sat at High School Examination.

Three others have received English education. One has passed S.L.C. and is now a clerk in the Queen's College, Benares; one is the Village Patwari, and the third is employed by a contractor of the Benares District Board. People are generally poor, and cannot afford to pay the fees. Female education is quite unknown in the village. Some efforts are necessary to improve the condition of the villagers by imparting education of an elementary character to suit their needs. Lack of education is the chief cause of their backwardness. It would be desirable to introduce compulsory elementary education for the village children, and to open night schools for the grown-up.

Administration

The history of the village is a very obscure one. Only this much is known that it was founded by a Milki Mohammedan, and is now under the permanent settlement. The administration of the village is carried on on the *panchayat* system. 'Village Unions' are in existence, each having five or six villages under its control. The *panchayat* system has been introduced only recently, and there was no such system in existence till November, 1925. This system has, unfortunately, not worked quite satisfactorily till the date of the enquiry. Not a single case was decided by it till then, although the Panches and the Sur-panches had been duly elected by the Government, with the help of the village people. There is one Sur-panch and six ordinary Panches in every union.

The Mukhia

Before the establishment of these unions, cases were decided mostly by the Mukhia of the village, who acted as the judge in consultation with four or five other respectable persons of the village. This Mukhia was not nominated by the Government, but was selected by the village people themselves. Thank God, there

is not much of litigation in this village, owing to the peaceful nature of the inhabitants.

Conclusion

In conclusion it may be stated that the village people are, on the whole, quite happy, but they would be happier still if the following improvements were gradually introduced in the village for their benefit:—

1. The introduction of elementary education.
2. The teaching of the lessons of thrift and self-help and the spread of the true co-operative spirit.
3. Improvement in the sanitation of the village.
4. Improvement in the methods of cultivation, and the introduction of supplementary industries.

All these improvements could be made only if people were to understand rightly the principles of co-operation, and bring them into use to ameliorate their condition economically, morally and socially.

SOIL EROSION IN THE UNITED PROVINCES

BY

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Wherever and whenever concentrated bursts of rain occur, erosion of soil is sure to take place, unless the rapid flow of water and the scouring action of the surface drainage are prevented from working their full destruction on the land. Rainwater, if it is permitted to gather strength and velocity, cuts into the soil and soon develops nallahs of great depth with nearly vertical sides, which grow in length, breadth and depth with every rain. The result is that not only the land on which it occurs is rendered practically useless, but so much quantity of water also runs to waste. Numerous signs of ravines exist all along the Jumna and the Chambal that clearly go to show what a heavy drainage is being done by unrestricted erosion of the soil. As a matter of fact, there is hardly a place in India that can claim to be free from the evil effects of rain-wash. Every year enormous quantities of soil, the real agricultural capital of the country, is being washed out to the sea. The United Provinces which form the most productive part of India are fast losing their best soil owing to unchecked run-off of the water through the great rivers that seem gradually to extend the channels of their tributary streams into every man's field. Erosion of the soil is the greatest single menace to the well-being of the people, for it removes not only the plant-food which is easily restorable but the whole soil which cannot be restored. Loss of fertility reacts on crop-production and consequently leads to abject poverty of the cultivating classes.

This impoverishment means debt, increased liability to diseases like malaria and ultimately rural depopulation.

The evil effects of soil erosion, however, vary according to the general slope of the ground. If the general surface of the country is not excessively undulated, water moves slowly and carries off with it the fine soil material from every part of the field. A large amount of the soluble organic matter is thus removed. This sort of erosion is called sheet erosion and becomes obvious only after constant observation of the run-off during periods of heavy monsoon rainfall. But if the ground is riddled with natural depressions, water runs off in the form of streams which develop numerous gullies or nallahs, forming a complicated network of ravines. These ravines often start at the edge of cultivation, take up a meandering course and join up with other systems, eventually falling into the river. Examples of both these types of erosion are very commonly met with in the United Provinces. For instance, barren and uncultivated areas in Oudh contain many large trees whose roots are entirely laid bare by unchecked sheet erosion, and more than a foot of the soil has been carried away in the course of about 200 years. Other cases of the same kind abound in Fatehpur Sikri, and Bah tahsil of Agra, as also in many parts of Bundelkhand. For the gully-type of erosion, the formations of the ravines are in themselves a convincing proof. A network of these ravines is spread over a large area near the Jumna Bridge Railway Station of Agra, on the left bank of the Jumna in Auraiya (Etawah), in Jalaon and Kalpi, as well as in the Dholpur State along the banks of the Chambal. The land of Agricultural Farm in Naini (Allahabad) which was once hopelessly cut into big nallahs and was therefore lying neglected for years together, has now been almost reclaimed through the personal efforts of Dr. Higginbottom and is now yielding luxuriant crops of various descriptions. Jamnipur, a village at a distance of about 16 miles from this place, is a typical example of rural land full of many ravines. The districts of

Dehradun and Saharanpur have lost a good deal of culturable land due to floods caused by rainwater running down the hills in rapid heavy torrents and leaving the beds dry a few hours after a storm. Extension of barren plains and ravines is clearly noticeable in Dehradun and it is not surprising to find that the area under cultivation in many villages of the Saharanpur Terai has decreased during the last 50 years. Another proof of erosion, both sheet and gully type, is furnished by the fact that the very foundations of old buildings in Bundelkhand and Muttra are now exposed to view. Old temples, mosques, graves, wells and the like, built out in the open, show in a marked degree the extent of wastage done by surface drainage to these most flourishing parts of the United Provinces which were at one time the centres of a higher class of cultivation, but which are now turned into sandy waste or gravelly barren land. The actual area of these ravines in the United Provinces is some millions of acres and this isconstantly increasing a fact which becomes at once clear if lately made maps are compared with the Field Survey of 1835.

In addition to the surface conditions, the character of the soil and also that of the sub-soil have a profound effect upon the tendency to erode. On equal slopes exposed to the same rainfall, light, open soils lose more silt than heavier loams, or black-cotton loams, which swell up when wetted. And the fact that a soil is or is not covered with forest or grass, or contains much organic matter, or is clayey or sandy, influences the rate at which it absorbs water and the amount of erosion caused by the surface run-off. The alluvium in the province of Agra is generally more open and sandier in texture than in the middle Doab. Therefore the former is more conducive to destructive erosion than the latter. The famous vegetable soils of Lucknow, on the other hand, are practically immune from erosion. These are some of the reasons why the banks of the Jumna in the Agra, Etawah and Jalaon districts are so speedily and completely drained that they have become almost destitute of vegetation. The tendency of many

dry-region soils to crack and recrack on drying, thus to form a loose fine fragmental or granular surface layer, adds greatly to the erosional vulnerability of tremendous areas of the lands, for they are eroded not only by the water that flows over them but also by the prevailing hot and dry winds which often blow off the fine particles from the surface only to scatter them here and there. Dry regions also aid one gully to wear through to another much quicker than would happen in humid regions.

The cumulative effect of centuries of abuse due to unchecked denudation is reflected in the upper lands having been laid bare and barren through the loss of fine particles and the low lands, at the same time, having become stiff and heavy by the continued addition of new soil. High lands consequently have greatly lost their power of retaining moisture, and the low-lying fields, contrary to the common belief that floods serve as a powerful instrument for soil enrichment, have received no corresponding benefit owing to the thick deposit of silt on flats where it was not needed —rather have done serious and permanent damage to the land and the crops growing on them. But this is not all. The accumulated effect of flooding and scouring has resulted in the lowering of the sub-soil water level so that wells have dried up causing serious privations to man and beast. It is easily conceivable that, in sloping country, if the surplus rain flows off unchecked, the water has insufficient time to percolate into the sub-soil and to reinforce the ground water. What happens, therefore, is that not only the supply of the drinking water is affected but also the labour of lifting water for irrigation purposes is increased. Furthermore, the water-table being lowered, it becomes difficult for the crop to obtain sufficient water for proper growth or to withstand even a moderate period of drought. The drying up of the country is a most serious matter, because if the erosion of the country continues at the present rate, irrigation projects will be hampered and eventually become impossible. It has been ascertained that the bed of the Jumna at Etawah is already lowered

through 60 ft. in the last 500 years. This drop in the Jumna level is established by the fact that in the fort at Shergarh near Auraiya (Etawah) the curb of the large well in use in 1550 is now 60 ft. above mean flood level, and also by the prevalence of old sugar mills in the Etawah trans-Jumna area where the water level is now far too low to admit of irrigation from wells. The cold-weather level of the Jumna in the Etawah and Jalaon districts is often 120—200 ft. below the general level of the surrounding country, and the well water levels are sometimes as low as 200 ft. In Northern Gwalior, the existence of stone sugar mills or oil mills all over the country where neither cane nor oil-pressing is now carried on, proves the use of irrigation at the places where they stand. The change of circumstances may be reasonably ascribed to the spring level having gone down to 100 ft. below the surface, which has caused the land to deteriorate into a vast expanse of an unculturable waste. Irrigation from wells was the principal mode of irrigation practised in the ancient times, and it seems that lakes were constructed with the important object of raising and keeping up of the spring levels through percolation of water, equalizing the temperature by supplying humidity to the atmosphere, and providing pasture for cattle, etc. To prove the statement, spring levels in wells at Magarpur, Jawan Sakrar, and many other neighbouring villages in Bundelkhand stand quite close to the surface due to the percolating influence of the Arjar lake, and the construction of the Pachwara lake has had the effect of raising the spring level of wells all round it for several miles.

Moreover, erosion leads to water-logging. Any partial holding up of the surface drainage and any slight concavity of the fields, due to depressions or to the misuse of iron ploughs, lead to local water-logging, to loss of available nitrogen and to the destruction of the porosity of the sub-soil. Every gradation of water logging ranging from slight damage to a crop to the production of saline efflorescence and the formation of permanent stagnant

swamps can be seen in the Gangetic alluvium and also in the north-eastern districts of Oudh.

A consideration of the above description leaves no doubt that the gradual denudation of the soil is the real 'economic drain' in India; and unless it is stopped and the fine soil is retained, the provision of improved varieties of crops, of irrigation facilities, of improved credit, of better cattle and implements will not yield their full results. The reclamation of eroded land is possible, but requires attention and patience. The main problem is to arouse the farmers to a realization of the importance of treating their soil in the manner best suited to its condition. Soils that cannot be cultivated without danger of erosion should be used for the production of hay, for pasture, or for forestry. The soil of the ravines which is often very fertile should be constantly cultivated, so that it may not solidify, owing to its fineness, to the consistency of rock and also in order that the penetration of moisture into the substratum may be accelerated. In the Indo-Gangetic alluvium, it will be an advantage if the monsoon is received on all vacant lands which have been thoroughly and deeply cultivated during the preceding hot season. The absorbing power of broken surface is very great, and, during the early rains, there is no run-off and consequently no erosion and no water-logging. The conservation of water also leads to the disappearance of the original worthless grasses if any, and their replacement by those of good feeding value. It is further desirable that a broad protective belt of land at the head of the ravines should be afforested to prevent further encroachment inland. Trees will doubtless prevent excessive erosion as also consolidation, and the litter and grass growth will retard the present rain wastage. Water which must escape can be caught in small ponds held up by *bandhs* thrown across the ravines, or by blind ditches and embankments on the higher ground. An interesting and successful experiment in the reclamation of ravine area is to be found in parts of Agricultural Farm at Naini (Allahabad) where ravines have been res-

tored by means of dâms, and also in parts of Grass Farm and Macpherson Park here at Allahabad where land has been reclaimed by means of embankments. Cracking on drying and contracting means copious æration and this occurrence renders possible the method of embanking on many soils south of the Ganges and the Jumna. Small embankments (Tals) in Bundelkhand are commonly constructed by the zemindars, for they afford the best means within the ability of the petty landholder of coping with the evil of soil-erosion. The Government have also undertaken works of such improvements in various parts of the United Provinces, notably in the districts of Banda, Partabgarh and Jhansi, with the object of holding up the surface water in tracts of ravine country, preventing further erosion and promoting the silting up and subsequent reclamation of the land. If *bandhs* could be combined with a suitable drainage system, by which the clear surplus water is run off, all the advantages connected with the prevention of erosion and with abundant percolation into the sub-soil would be obtained, while denitrification would be checked. The position of the cultivator on whose welfare rests the entire prosperity of a country so predominantly agricultural as India, would thus be made sufficiently secure.

NOTES

CENSUS NOTES

Particulars of the programme of the United States Census are now available. The Fifteenth Decennial Federal Census of the United States of 1930, is in reality a bundle of five censuses—of population, which has 140 years of history; of manufactures and of agriculture, the next older members of the census family, with 100 years' and 90 years' standing respectively; of unemployment, included on a Federal scale even from as early a date as 1880; and of distribution, the latest addition, which is appearing for the first time in 1930.

The population census has of course gathered a mass of tradition, from which, it is difficult to break away, and to which, additional inquiries can only be attached by the removal of an equal number of old questions. Certain basic facts, such as geographical location, colour, sex, age and marital condition, are naturally present on all schedules, and will also appear in the present census without modification. Equally, other inquiries of long standing, like place of birth, citizenship, occupation, literacy and school attendance, have been retained with only incidental changes. The definite additions and omissions recommended by various interested persons and organisations (amounting to about 40 proposals in number), were subjected to a careful examination by an advisory board specially set up for the purpose, and the final schedule consists of 24 questions in all, including five questions appearing for the first time in the place of four questions carried on the schedule of 1920 and now omitted, together with the consolidation of the two questions, " whether able to read " and " whether able to write " appearing previously, into one question " whether able to

read and write" at the present census. The 19 questions commonly occurring are the following:—

1. Relationship to head of family, with special provision for distinguishing the home-maker in each family.
2. Whether home is owned or rented.
3. Does this family live on a farm?
4. Sex.
5. Colour or race.
6. Age at last birthday.
7. Marital condition.
8. Place of birth of person(state or county).
9. Place of birth of person's father (state or county).
10. Place of birth of person's mother (state or county).
11. Mother-tongue of each foreign-born person.
12. Whether able to speak English.
13. Year of immigration to United States (foreign-born only).
14. Whether naturalised (foreign-born only)
15. Attended school or college any time since September 1 1929?
16. Whether able to read and write.
17. Occupation of each gainful worker.
18. Industry in which employed.
19. Whether employer, employee, or working on own account.

The four omitted questions are:—

1. Whether home was mortgaged or not (owned homes only)?
2. Mother-tongue of father.
3. Mother-tongue of mother.
4. Date of naturalisation (for naturalised foreign-born only).

It would be seen however, on comparison with the new form as finally adopted that as a consequence of this, no information of a serious import has come to be dropped.

The new questions finally selected are the following:—

1. Whether the family has a radio set?
2. Whether a veteran of the United States military, or naval forces; and for each veteran, in what war or expedition he served?
3. Value of home, if owned, or monthly rental, if rented?
4. Age at first marriage (for married persons only).
5. Whether actually at work (for each person normally at work, but returned as not at work, additional information to be supplied as on a special unemployment schedule)?

It will be noted that on this schedule as thus finally made up, 19 questions relate to sociological or demographic factors, and five are devoted to economic factors.

Of the newly added questions, that relating to radio has been included to ascertain the size of the potential radio audience besides of course, satisfying what appears to be a rather widespread curiosity. The question on veterans has been included solely for the purpose of supplying information desired by the Veteran's Bureau. Of the new questions the most important perhaps is that calling for the value of home, if owned, or monthly rental, if rented. This will make possible a classification of families according to economic status, or perhaps, as one might say, according to "buying power" of course, in broad groups. Such a classification has been urgently desired among others, by individuals and firms, using census figures as a basis for organising their selling and advertising campaigns. It has of course been guaranteed that the information of any individual home will not be revealed either to the public or to the tax assessors, but will only be used in the Census Bureau for statistical compilation. The question as to age at first marriage is what there is left of a set of four questions that were asked at a number of previous censuses before 1910, and completely omitted in 1920, but have never been tabulated except for small sample areas. The other three

questions originally asked are (1) number of children born to each woman, (2) number of these children living, and (3) whether first, second or subsequent marriage. The argument for the one question as a fairly acceptable substitute for the group of four is based on the assumption that a tabulation of the number of children reported on the schedule as members of the family for women who have been married, say 15 years or less, will indicate accurately the relative size of families of children being raised by the different racial groups of the population, and in rural and urban areas. Incidentally the date on age at marriage will have considerable social significance of their own quite apart from their use in the tabulation just mentioned. In the classification of gainful workers according to occupation and industry, greater stress is to be placed than heretofore on the returns for the industry both in the instructions to the enumerators and in the publication of the results. With the increasing complexity of American industrial organisation and rapidly changing terminology, the occupational classification furnishes one of the most difficult, if not the most difficult of the problems, in the Census.

There are also some new features in the census plans which do not involve new questions on the schedule. For example, women doing housework in their own homes (or supervising such work done by servants) and carrying the other responsibilities of the home will be designated as home-makers. This designation will be entered in the family relationship column on the schedule, rather than in the occupational column, in order that those women who follow a profession or other gainful occupation, in addition to being home-makers, may be properly classified in respect to both lines of activity. Also tentative provision is being made for showing the population of townships or other minor civil divisions of the counties, classified by colour, sex and age—something which has not been done heretofore for units smaller than counties. The rural population is to be subdivided into farm population and rural non-farm population throughout the census reports, provided a

satisfactory definition of farm population can be worked out. It has been calculated that there will be anywhere from 11 to 32 possible entries for each of some 122,000,000 persons, or on the aggregate somewhere about two-and-a-half billion entries, in which the defective ones, though forming a small proportion would demand, like the one naughty boy in a schoolroom who causes the teacher more worry than the 39 well-behaved pupils, far more than its fair share of time and attention.

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The census of agriculture in the United States in 1930 is a most elaborate affair. More than twenty months were given to the preparation of the schedules by a joint committee of the Department of Agriculture and of the Bureau of the Census, who consulted before drawing up the final schedules not only agricultural publications and State Departments of Agriculture, but several students of agricultural colleges and many "real dirt farmers" also. It is a census of agricultural farms, of farm accounting and of farm facilities, and also of all farm products and livestock not on farms, and contains about 360 inquiries. Of these some 50 have never been asked at any prior census, and about a hundred which used to be asked before have now been omitted. A large part of the omitted questions relate to value of livestock and quantities of products sold or to be sold, but it has been provided that for the census of 1930, the livestock values will be computed from average price figures, by counties, to be furnished by the Department of Agriculture, while the quantities to be sold, or actually sold, will only be reported for a limited number of products. Of the inquiries that are being made for the first time, the following are the more important:

Value of the farmers' dwelling house;

Such farm expenditure as purchases of, supplies, or repairs for, automotive vehicles and electric current;

Number of combine harvesters, electric motors and gas engines on the farm;

Daily production of milk and eggs at the time of the census;

Number of baby chicks bought;

Number of hides and skins sold from the farm; and so on.

The questions are distributed among one schedule known as the General Farm Schedule and eight other schedules to be separately used for special inquiries and the information collected may broadly be grouped into the following seven parts:

I. Personal information regarding the farm operator:

Name, address, colour or race, age, period of his operation of present farm, number of days worked for pay in 1929 on jobs not connected with the operation of his farm, his "occupation" as reported by him in the populational census.

II. General information regarding (a) farm acreage, (b) farm values, and (c) farm expenses:

Acreage in crop land, pastures, meadows, woodlands, waste land gardens, orchards, vineyards, etc., as well as land under each crop, and lands idle or otherwise not harvested;

Value of land, buildings and implements and machinery;

Various items under farm expenditure which are calculated to show the economic factors in the costs of production.

III. Farm tenure:

Questions under this head have been considered very essential and cover a vast ground distinguishing ownership, tenure and types of tenancy.

IV. Livestock:

It must be remembered that in U.S. dairying, poultrying and beehiving constitute an important part of farm-

ing, and their relation to the food supply of the country has been one of the most intimate facts of American economic life. Accordingly the term "livestock" is used to include all common domestic farm animals, poultry and also bees, and in many cases information has to be furnished classified according to age and sex. The products to be reported include milk, butter, wool, mohair, eggs and honey.

V. Value of livestock products produced and sold:

The questions are incidental to those enumerated in IV, and special arrangements are provided for obtaining information, as stated already, in regard to the assessment of value.

VI. Acreage and yields of all crops harvested in 1929, as well as quantity and value of the principal crops sold or to be sold:

The usual questions have been enlarged by the inclusion for the first time, of information relative to vegetables, berries and fruits also. Provision has also been made for the verification of the information supplied on the census schedule with that which is obtainable from other sources in the Agricultural Department.

VII. Miscellaneous:

1. Mortgage indebtedness, if any, and commissions, bonuses, etc., paid in 1929;
2. Amount of taxes paid on each head;
3. Acres in rotation pasture; acres terraced to prevent erosion, acres with artificial drainage;
4. Extent and yield on land—irrigated and unirrigated;
5. Facilities on farms, such as telephones, electric light, etc.;
6. Number of persons residing on farm;

7. Gross receipts from lodgers, boarders, and campers on farm in 1929;
8. Amount received from sales from nurseries, seed farms, bulb farms, etc.;
9. Value of products purchased, or sold to, farmers' co-operative marketing organisations.

It has been already stated that there are about 360 questions in all. These schedules, in part or in whole, will be answered on behalf of some six-and-a-half million farms. The unit of tabulation in 1930 will not be agricultural counties as formerly, of which there were only 3000; it will now be the townships or population minor civil divisions, of which there are 55,000. The information is proposed to be correlated between every two of the six tenures, two colours, twelve size-groups of farms twelve types of farms and twelve groups of farm-products-values. In some cases these correlations are further to be subdivided according to six age groups and an equal number of occupancy groups. It will thus be seen that the census task, so comprehensive and so complex, is Herculean and will probably defy even the mechanical tabulation methods of the United States.

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The census of manufactures is taken in the United States both on a biennial basis and as part of the general decennial census. For preparation of the schedules to be used at this Census an Advisory Committee had been set up with 25 members comprising important manufacturers, economists, statisticians, students of labour conditions and others interested in census statistics. In all one general schedule and some 166 special schedules will be used and the scope of the coming census has been considerably expanded. The more important of the new items relate to migration in industries, time in operation and hours of labour, power equipment, fuel costs, capital invested, rent and taxes, wage earners on some representative data (usually December 15) classified by sex and by age, and distribution of sales. Under this last head

classification of sales is to be made over nine items in all—other manufacturers, wholesalers and jobbers, to retailers and so on. This information is desired in connection with the census of distribution to complete or supplement the information obtained from the schedules filled out for merchants and dealers. Moreover the value of products is to be the net selling value at the plant of all products actually shipped or delivered to customers, instead of, as in the previous censuses, all products whether sold or not. Owing however to much controversy having arisen in regard to the obtaining of information in regard to sales instead of to production, the schedules for certain industries will call as heretofore for data on production and not for sales. Another difficulty that has not been finally got over is the exhibition of data of certain industries divided into the regional units of the Census without giving at the same time information of what may amount only to individual firms, because certain industries, like automobiles for instance, are so much centralised, that practically statistics of individual concerns so much overshadow the rest. One novel feature in the reporting is that a preliminary report will, with a minimum of delay almost immediately after the census, be issued in the interests of trade and industry and will be followed, with Reports in the usual way, containing more detailed and verified information.

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It may be stated that censuses of unemployment are, contrary to a somewhat prevalent impression, not new. The Federal Government had included inquiries regarding unemployment in four previous decennial censuses—in 1880, 1890, 1900 and 1910, and other States had also conducted additional inquiries from time to time for their own purposes. The results of 1880 and 1910 were not published for reasons, among others, owing to lack of interest in the subject in those prosperous days, but those of 1890 and 1900 even are of doubtful value, as having been based mainly on the question "months unemployed during the census year," which

certainly is a vague and difficult one to answer. It must however be realised that it is no easy task even to get a reliable definition of unemployment, let alone the subsequent working out the career of such. But following partly a suggestion made by Professor R. Mayo-Smith at as early a date as 1899, and partly the basis employed by the Union of South Africa for its census in 1921, it has been agreed to define, for the United States census of 1930, an unemployed person as one who is (a) usually employed for wages or salary, (b) now able to work but (c) out of work on the census day and (d) looking out for a job. In this way the "can works" are hoped to be distinguished from the "can't works" and the "will works" from the "won't works" and the actual questions on the schedule are the following:

1. Does this person usually work at a gainful occupation?
2. Does this person have a job of any kind?

Question 2 will divide those scheduled into two groups, and if this person has a job:

3. How many weeks since he has worked on that job?
4. Why was he not at work yesterday (or the last working day)?
5. Does he lose a day's pay for not being at work?
6. How many days did he work last week?
7. How many days in a full time week?

has not a job:

8. Is he able to work?
9. Is he looking for a job?
10. For how many weeks has he been without a job?
11. Reason for being out of a job (or for losing his last job)?

In addition to this information, the schedule has columns for the transcription from the population schedule of data relating to age, sex, marital condition, colour, nativity, occupation; whether an employer, working on own account, or an employee; and the number of persons employed in the family, dependent, unemployed. It may be stated that these questions are not very helpful, but

" practicability " rather than " desirability " seems to have been the final criterion in selection of questions for the schedule. The questions on this schedule, were like those on other schedules, also, determined after lengthy and painstaking study by officials of the Department of Commerce and of the Census Bureau, assisted by an advisory council of experts and by many other interested persons and organisations.

* * * * *

A census of distribution on a nation-wide scale is being taken for the first time in 1930 in the United States. The provision in the Act authorising this has been included in response to a wide-spread public demand, which itself arose out of the enthusiastic reception given by businessmen to certain experimental censuses of distribution in twenty cities taken in 1927 in co-operation with the Chamber of Commerce in the United States. A conference had previously been held in 1925 stimulating the interest of businessmen in these matters. It should however be stated at once that by the term " distribution " is not meant the distribution of wealth, as commonly understood in theoretical economics, but is a " merchant distribution " implying a marketing study, and is being taken to find the basic facts about the national distributing system in the United States in order that these facts may be used to make the system more efficient. In general this census will cover all establishments engaged in trade, wholesale or retail, and the subjects of inquiry will include a general description of business naming the classes of goods dealt in, the number of proprietors of firm, members and the number of employees, farm products bought or taken in from farms, total sales distinguishing cash from credit sales and classifying certain articles both by volume and by value according to purchaser such as, wholesalers and jobbers, chain stores, retailers, consumers direct or miscellaneous purchasers, and distinguishing also the township of origin and destination. It may not be a perfect questionnaire yet, but it is hoped that some knowledge concerning the geographical distribution

of buying power of the whole population will be available whereby some of the blindness now existing will be taken out of competition.

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It may be stated that the Act providing for the Fifteenth and subsequent decennial censuses was signed by President Hoover on the 18th June, 1929, and even as such it was too late for the census now taken for April, 1930. This was due to a deadlock which arose in the passage of the Bill out of a section providing the automatic apportionment of Representatives to the United States Congress among the various States. For by the constitution a decennial enumeration of the population is required as a basis for apportionment, but the constitution simply states that the Representatives (now amounting to a total of 435) "shall be apportioned among the several states in accordance with the respective numbers counting the whole number of persons in each State but excluding Indians not taxed," but no definition of "population," "resident" or "usual place of abode" has ever been given. This was sought to be remedied taking the present census as a suitable opportunity by requiring the President to transmit to Congress a statement showing the population of the several States as ascertained by the census and also the number of Representatives to which each State will be entitled under an apportionment of the then existing total number of Representatives by each of the three following methods: (1) as at the last apportionment, (2) by what is known as the method of "major fractions," and (3) by what is known as the method of "equal proportions." Then the Congress would proceed to pass a law according to any one of these methods, but if it fails, the law provides for an automatic apportionment as by method (1). If however the President fails to submit the statements required from him within one month after the Congress meets in regular session, these provisions of the law have no effect. Consequently a very heavy responsibility vests with the Bureau of Census, for unless it

is prepared to bear the onus of nullyfying the law, it must have its count of population completed and apportionment tables ready by the time the Congress meets in December, 1930.

K. B. MADHAVA.

LABOUR

We understand that Mr. N. M. Joshi, M.L.A., and a member of the Royal Commission on Labour, has been invited to attend the Round Table Conference to be held in London in October. We are sure that in his experienced and capable hands the interests of the working classes in India will not go by default. No better person could have been selected to represent the workers in India.

We note with pleasure that the Chairman of the Calcutta Tramways Company at a recent meeting spoke in terms of high praise of the company's motormen and conductors in carrying on their duties in face of great personal danger during the recent riots in Calcutta. Men who thus faithfully discharge their duty, especially in public utility services, deserve special gratitude of the public. It is well the Chairman of this particular Company recorded in public meeting the courageous services rendered by the employees.

It was a great move forward when the All-India Railwaymen's Federation representatives led by Mr. V. V. Giri, General Secretary, met the representatives of the Railway Board on the 16th and 17th June, 1930, at Simla. We congratulate the Government in adhering to their policy of meeting the workers' representatives as declared by Sir George Rainy on the 28th February of this year. It is certain that such meetings of the two sides will go a very cosy way to make for the smooth and efficient working of the Railways of India.

Mr. T. G. Russell, Chief Commissioner of Railways, in welcoming the representatives of the Railwaymen made it clear that the authorities had been much assisted by the representation and discussions of the Railwaymen's Federation and hoped the Unions in their turn would feel confident of the Government's attitude of trust towards them.

The Agenda suggested by the Federation and accepted by the Board included the following subjects:—(i) The G.I.P. Railway strike, (ii) Rules relating to discharge and dismissal of railway employees, (iii) Leave Rules, (iv) Relations between Railways and Railway Unions and between the Federation and the Railway Board, (v) Wages question, (vi) Other matters relating to the demands put forward by the Federation in May, 1929 (vii) Hours of employment and periods of rest for railway employees.

Thus it is clear from the Agenda that matters of the greatest importance were taken up for discussion. Thereby demonstrating to the world at large that such meetings were not to assemble for mere show, but for hard and serious work. We hope these meetings and exchange of views will steadily grow in their purpose for the good of all concerned.

Amongst the various items regarding the reinstatement of the G.I.P. Strikers, it was conceded by the Board that all those Strikers who joined before the 17th March, 1930 or were put upon the waiting-list would be treated as reinstated and not as re-employed. This means that the men so taken back could count their past service and all the attached privileges. Though a great gain secured! It must be frankly admitted that the Railway Board met the Federation's demands in most cases and showed willingness to consider other points sympathetically.

The Federation wished to do away with the distinction between dismissal and discharge. But the Board were not prepared to accede to this request, and we think rightly. Discharge is when a worker is not needed due to retrenchment or other Economic cause. But dismissal is action which is exercised when a

worker is not kept on for disciplinary reasons. But the Board pointed out that cases of dismissal because of their seriousness were therefore left in the hands only of the Heads of Departments or the Divisional Superintendent. This power however was deligated to selected senior subordinates. It is this to which the Federation were much opposed.

With regard to the question of retrenchment the Federation emphasised that block retrenchment caused acute hardship and unemployment and that it should be avoided and whenever contemplated the Local Unions should be taken into confidence to avoid misunderstanding. The Board reiterated their policy made public on 17th May, 1930, saying that they could not bind themselves down, but would avoid as far as possible wholesale retrenchment and in any case would give recognised Unions timely warning.

The demand for an independent medical tribunal in case of discharge of men for physical unfitness was not granted. The Chief Commissioner argued that as the Railways were responsible for the safety of the travelling public and as they had their own medical establishment, it was not possible for them to admit an outside body to share their responsibility. We feel that in principle the Board are right, we only hope that when hard cases do arise the Board will not hesitate to act considerately.

The leave rules occasioned much discussion, the Federation being distinctly dissatisfied with the new leave rules. The Board agreed that the rules were more stringent than Government leave rules, but felt they were more liberal towards the lower paid staff. It was also pointed out that medical leave could not be enjoyed by the lower staff except after 20 years service! The Board promised to look carefully into this matter, and asked the Agents to increase adequately the Relieving staff on their systems.

In one word we feel that while not acceding to all the demands of the Federation, the Board met most of their points and promised to consider others. But above all the spirit which animated both sides was excellent and augurs well for the future.

It is significant that despite moves to the contrary, the Trade Union Organisations of both Great Britain and India are drawing closer together in many ways. As an instance is inauguration of the India Labour Committee which held its first meeting at the House of Commons in May of this year. The objects of the Committee are to work for Dominion Status, to assist the Indian Trade Union movement and to promote good relations between British and Indian Unionists. Many prominent British Unionists like Mr. Purcell, Secretary, Manchester Trade Council and Indian Unionists like Mr. Shiva Rao are taking part in this movement.

Yet another instance of a closer union between British and Indian Unionists is to be found in the Executive Committee of the Miners' Federation of Great Britain having sanctioned as annual contribution of £100 for three years for the organisation of help and should lead to closer co-operation. This generous help was the outcome of a meeting between Diwan Chamman Lal, Mr. Joshi and Mr. John Cliff of the Labour Commission with Mr. A. J. Cook, Miners' Secretary and a full Executive of the Miners' Federation.

The Transport Workers' Federation also made a substantial donation to the All-India Trade Union Federation. This body, as will be remembered was formed after the Nagpur Trade Union Congress split last year.

Industrial disputes in British India during the quarter ended last March showed no less than 35 involving 75,000 men and causing a loss of 1,582,028 days. Most of these disputes affected Bengal and Bombay. Of these disputes 16 were over the question of wages, 10 over questions of personnel, 4 about leave and hours and the rest over miscellaneous matters. Only three disputes were successful, 19 unsuccessful. Seven partially successful and others were in progress. The railways were the largest sufferers, then jute, cotton and mines least of all.

A valuable Grey-Blue report was hours of work in coal-mines has been prepared by the International Labour Office. The hours of work in coal mines has been added as an item on the Agenda of the Fourteenth Sessions of International Labour Conference held at Geneva on the 10th of June this year.

Mr. Graham, President of the British Board of Trade, raised the question in the 10th session of the Assembly of the League of Nations in September, 1929. As a consequence the governing body of the International Labour Office convened a Preparatory Technical Conference, consisting of representatives of governments, employees and workers of the principal coal-producing countries of Europe which met at Geneva in January, 1930. Nine important countries took part in it. The conference after considering questions concerning hours of work, wages and conditions of employment in coal mines, on the basis of documents prepared by the International Labour Office recommended to the Governing Body that the discussion of a convention on hours of work in coal mines should be placed on the Agenda of the 1930 Conference.

The Labour Conference by 75 votes to 33 has approved of the Draft convention on the hours of work in coal mines, providing for a 7¾-hour day.

Dr. Paranjpye announced he would vote in favour of th Draft convention as he felt India was anxious to secure international understanding in a difficult and important question which concerned some countries primarily. He said this did not imply that India would necessarily ratify the convention. It is however certain we need to shorten the 12-hour day shift we have now on the States book.

The salaried employees, who so far had little legislation on their behalf, are now to enjoy an eight-hour day and a 48-hour week if the Draft convention passed by the Labour Conference is duly ratified by member-states.

The Indian Delegations to the Fourteenth International Labour Conference again made its mark at Geneva. Of the speeches made we feel that Mr. S. C. Joshi did well in emphasising the necessity of the International Labour Office directing their special attention to Asiatic Labour questions. While it is true that industrialization has not reached anywhere near the stage it has arrived at in the West, yet we feel that it is just in the period of change, from a transition from mediæval conditions of production to the modern factory system that the workers need the greatest amount of protection. It can be easily established that in the case of Asiatic, indeed all coloured labour, the need for such protection is all the greater. We also feel that he was on very solid ground when he said that from Africa these should be directed colonial labour representation to the conference. We understand that treatment and conditions of labour of the African workers is far from satisfactory. Geneva must champion their cause.

We would also strongly endorse Mr. Ojha's (Employers' delegate) contention that the Indian States should be brought under the operation of the International Labour Office, Draft conventions and recommendations. Ever since factory legislation has been instituted in this country, Indian States have remained outside its obligations. Unquestionably it gives a distinct advantage to the employers or capitalists inside the states. Our industries, the very best of them, are not so strongly entrenched that they can serenely face this flank attack of industrial competition from the Indian States. All their efforts can do is to meet the frontal attack of severe competition from abroad. The Imperial Government needs to pay serious attention to this matter.

However, to be fair to the Indian States, we must say that some states like Mysore, Baroda and Travancore have a splendid system of factory legislation and we are pleased to note that only recently the Nizam too has enacted a satisfactory Factory Act.

S. K. Rudra.

INDUSTRY, TRADE, TRANSPORT, ETC.

The present boycott and *Swadeshi* movement has within about two months of its inauguration gained tremendously in strength. The people have thrown themselves into it with an enthusiasm such as has never been witnessed before. Almost all sections are boycotting foreign cloth and taking to *Swadeshi* cloth particularly *Khaddar*. Bar Associations have resolved that their members give up foreign clothes and wear *Khaddar* or dresses of Indian-manufactured cloth. Mercantile firms have cancelled orders for foreign cloth and have decided not to indent for it for some months. Mills and factories are issuing notices to their employers to come to them in garments made of home-spun or *Swadeshi* fabrics and the employers are willingly obeying those notices. Women who were perhaps particularly fond of foreign cloth because of its fineness and lustre have deposed it from the high position it held in their estimation and have installed *Swadeshi* cloth preferably *Khaddar*, coarse as it is, in its place. More than this, they are emerging out of *purdah* and actively picketing foreign cloth shops.

Although the movement is not confined solely to cloth, yet it centres chiefly round that article. And, so far as that goes, it is a God-send to the cotton-mill industry of the country. The cotton industry has been experiencing an awful depression which among other things is due to competition from abroad. It badly wanted a respite from this competition to set its house in order. The revenue import duty on cotton piece-goods was raised from 11 per cent to 15 per cent and an additional protective duty of 5 per cent on all non-British cotton goods was levied at the last session of the Legislative Assembly: and, the new duties were expected to provide the much-needed interval of relief. They might have fulfilled the expectations formed of them though it cannot be said that they would certainly have done so to, at any

rate, the desired extent. Even if they had proved quite effective they would have been so in the face of a feeling of opposition to them on the part of the consumer because of the high price of cloth to him which those measures would have led to. Now, the boycott and *Swadeshi* movement gives fully what the duties, if successful, would have given, for it shuts out practically completely all foreign competition. And, at the same time, it carries with it the willingness of the people to buy *Swadeshi* cloth even at a sacrifice. It thus represents a piece of extraordinary good fortune to the cotton mills. Under its auspices the millowners can easily dispose of the accumulated stocks and carry out schemes of rationalization which will put the mills on a competitive basis with their foreign rivals. If they do this they may be sure of a bright future for the cotton industry of India but if they resort to profiteering as they did in 1905-6 and in the post-war boom they will be following a short-sighted policy: they will gain immediately but ultimately they will do an irreparable harm to their industry which is rightly called the national industry of India. The *Swadeshi* spirit that has been generated will receive a great shock and get toned down a good deal. The people may also be antagonised which no millowner can afford to look calmly on for they constitute the principal support of the cotton industry whether as buyers and consumers of its products or otherwise.

The Millowners Association, Bombay, have issued a statement that is very assuring in respect of the present situation. The statement informs the public that the millowners are aware that no lasting good can accrue to them unless the interests of the consumers are properly cared for and that they would do what they can to control prices and prevent profiteering on the part of both the merchants and middle-men. As an evidence of their good faith the statement says that during the last two or three weeks the mill products have been sold at prices current in January and February—that is, before the new duties were im-

posed and the *Swadeshi* movement was launched. It also points out that although no final conclusion has been reached by the Association as to the way in which prices are to be controlled yet their proposal is firstly to publish periodically the prices at which the mill wares are sold and secondly to appoint a sub-committee whose function will be to scrutinize the prices from time to time and to go into complaints about profiteering that may be made to it. The statement adds that the Association are formulating plans for popularizing and marketing the mill products and will make them known to the public when they are ready.

The boycott and *Swadeshi* movement offers the Indian weaver also an unlooked-for chance. But he is not in a position to catch it by the forelock. Since the 19th century owing to competition from machine-made goods imported or produced in the country he has been steadily losing ground till today his plight is very sad indeed. He is sunk deep in poverty. He hardly earns a living wage. He has no capital and is entangled in the meshes of the money-lender. He is unorganised and ignorant. He sticks to his time-worn machine and methods of production. But these defects are not insurmountable if proper help be forthcoming. And the time is very propitious for any help to the weaver to bear fruit. Hand-loom spun cloth is the fashion of the day and sells like anything. Why should not Village-Service Leagues, Congress Organizations and Government bodies do the needful for this poor downtrodden human being? All are agreed that his condition need amelioration and all are anxious to ameliorate it—in their own way. All should do what they can in this common field of action.

The Department of Industries, the Punjab, are carrying out the surveys of the different industries of the Province. A summary of the results of the first of these which is ready and which deals with the textile industry the Director of the Information

Bureau has supplied to the press for the information of the public. The suggestions that appear in it for bettering the lot of the weaver are worthy of note. They aim at doing away with the sad lack of capital and knowledge on the part of the weaver, at providing marketing facilities for and effecting large sales of the wares produced by him, and at removing burdens that weigh down the hand-loom industry in its competition with the mill industry. They are: (1) that co-operative and commercial societies be organized in all important centres of weaving so that the weaver and the capitalist might work as a unit—the one producing fabrics and the other supplying capital and knowledge—for mutual benefit; (2) that supply unions, commission shops and sale depots be opened at suitable places and the various Government departments like the military, police, railway, etc., be asked to give preference to indigenous products for their requirements; and (3) that the railway freight, the terminal and octroi taxes which act as a great handicap to the hand-loom fabrics be reduced.

When the new Cotton Tariff Bill was passed at the last session of the Indian Legislature it might have been thought that Lancashire would submit to the inevitable and move along the line of least resistance with regard to the new duties especially because the Bill gave a substantial preference to British goods, because the fiscal autonomy of India had been much advertised, and because India has always felt that Lancashire has never wanted the Indian Cotton-mill Industry to grow. But evidently that is not going to be the case. Lancashire regards the preference she has obtained as not of much use, the fiscal autonomy of India as not real, and the Indian feeling as not worth paying attention to. An Association called the Cotton Duties Repeal Association has been formed in Lancashire with the object of getting the repeal of the Indian cotton duties. The Association is going to invite all sections of the industry to unite to bring pressure to bear upon the Government to withdraw the new tariff.

It is really a pity that Lancashire should be doing all this—especially at the present juncture.

The Empire Marketing Board has published a memorandum entitled "Indian Sunn or Sann Hemp" which points out that the Indian Sunn Hemp has now a unique opportunity of obtaining a firm foothold on the British market if steps be taken to remove the defects of the fibre and bring it up to commercial standards. The supply of Russian Hemp to Great Britain has much decreased owing to curtailed production there and Great Britain is increasingly using Indian Hemp for the manufacture of ropes, cables, twines, etc. But the price it fetches is much less than what the Italian, Russian or Hungarian Hemps obtain. This is mainly due to defects in preparing and marking the article. Retting is done in some districts in mud or muddy water with the result that much dust and dirt sticks to the fibre and factory workers refuse to spin it. And in preparing bales different grades are not unoften mixed and adulteration is brought about. These defects can be removed and Indian Sunn Hemp can become a very valuable article of export from this country. It is cultivated in Madras, the United Provinces, Bombay and Sindh and the Central Provinces and Berar. The Agricultural Departments in these provinces should show the cultivator the right way of preparing the product for the market.

As recommended by the Jayakar Committee the first Conference on Road Development met at Simla on April 10 under the chairmanship of Sir B. N. Mittra, Member-in-charge of the Industries and Labour Department. All the provinces were represented excepting Burma which will have an independent programme. The object of the Conference was to discuss the road programmes for the provinces to be undertaken out of the Road Development Account. So that the road development should be worked out on a consistent plan throughout India. Roads were

divided into inter-provincial or trunk roads and roads which are feeders to railways, waterways and trunk roads. The amounts that will probably be allotted to the provinces were announced by the chairman as follows:—

				Rs.
Madras	...	...	..	12·7 lakhs.
Bombay	...	..	...	17·20 ,,
Bengal	...	...	...	12·20 ,,
The United Provinces		...	...	4·64 ,,
The Punjab		...	...	8·15 ,,
Bihar and Orissa		...	...	2·88 ,,
The Central Provinces		...	...	3·75 ,,
Indian States		...	...	10

The world is going shortly to witness an enormous increase in the productive capacity of the paper and pulp industry of Sweden, Finland, and Norway, particularly of Sweden. Finance is the crux of the problem of industrial development in these countries as everywhere at present. But money is quite easy in Sweden and it is extremely tight in Finland and Norway, more so in the latter than in the former.

The additions to production are expected to be as follows:—Sweden—Ground wood, 30,000 metric tons; bleached sulphite, 2,500 tons; unbleached sulphite, 7.500 tons; sulphate, 219,000 tons; Kraft paper, 40,000 tons; other classes, 7,000 tons—Finland—two plants which are going to begin operations shortly will produce 30,000 tons respectively of bleached sulphite and unbleached sulphite; a third plant 12,000 tons of sulphite pulp; and a fourth 8,000 tons paper—Norway—a concern 8,000 tons paper.

The chief increase, it is to be noted, will be in bleached sulphite and sulphate pulp and Kraft paper. This will be so mainly because owing to the development of the artificial silk industry in recent years an increased demand in these lines is visualized.

But back of the increased production is also a desire to utilize waste in connection with sawmills and reduce costs by mass production.

An Overseas Trade Development Council has been formed in London to deal with export trade problems and will co-operate with the Lord Privy Seal to promote employment. The Council consists of Government officials and representatives of commerce to be assisted by representatives of industry.

An important company called the "Bankers Industrial Development Company" has been formed in Britain to facilitate the rationalization of the basic industries of that country. The company has a nominal capital of £6,000,000 divided into 45 A shares and 15 B shares of £100,000 each. The former shares have been subscribed by some of the most influential British banking and financial institutions and the latter by the Securities Management Trust, Ltd.

The Bank of England, it is understood, will have a direct concern and controlling voice in two new iron and steel and coal companies, named the Lancashire Steel Corporation and the Wigan Coal Corporation, that have been formed by an amalgamation of five leading companies and own a combined capital of £7½ millions.

Switzerland is experimenting with different fuels to find out a substitute for petrol. She imports petrol of the value of 20 million francs annually and wishes to save the amount. Alcohol has been hit at as a good substitute and is being used for all military purposes except flying. But experiments are proceeding with compressed gas, electricity and wood coal also.

In the tea industry and trade as in other industries and trades the present melancholy situation is due to production having

largely outstripped consumption. Matters can mend themselves if production and consumption are brought within reach of each other. The tea interests are much concerned to bring about such a state of things in regard to their commodity. They propose to stimulate the consumption of tea on the one hand and to reduce its output on the other. To increase the consumption of tea they will carry on a huge propaganda in favour of tea-drinking and imbibing the "tanin habit" chiefly in Russia, India and the United States of America because these markets are regarded as having great potentialities. To curtail the output of tea they have reached an agreement among themselves whereby the areas under the 1930 crop will be restricted on the basis of the 1929 crop as follows:—

North India	32,500,000
South India	4,000,000
Ceylon	11,200,000
Java and Sumatra	9,500,000

The Bareilly Match Factory, a notable example of Indian enterprise, has been bought by the Swedish match combine called the Western India Match Company. The same is going to be the fate of another indigenous match factory which is situated at Lahore and with whose proprietors negotiations for its purchase are proceeding.

The electrification of the rural areas of France has been and is going on at a very rapid rate. In 1919 only 19 per cent of the communes had electricity. Today more than 60 per cent of the communes containing 80 per cent of the entire population are served with it, the degree of electrification reaching 90 per cent in 12 departments and 75 per cent in 28 hours. Within the next ten years when the present programme will be executed 95 per cent of the communes will have electric connection.

Electricity is as yet but little used as power on the farms

but its potentialities in that connection are understood and demonstration is carried on in many districts.

At the end of March, 1929, the number of motor vehicles of all kinds registered in British India excluding Native States was 172,680 of which 116,625 were motor cars and 30,181 lorries and busses.

A procession of eight bright blue motor-vans is on a three months' tour in Southern Italy, Sicily and Sardinia carrying on agricultural propaganda in those parts. The vans contain agricultural exhibits and are fitted up with pictures and models which ordinary peasants can understand to illustrate modern systems of agriculture. Books are distributed and films bearing on rural life are shown at places where the procession is on view.

Agricultural propaganda is a great desideratum in India. The Indian peasant all over the country is following the technique of agriculture that has come down to him from a remote past. But he is not averse to introducing modern methods of production if he comes to know what they are and is convinced of their feasibility and advantages. The departments of agriculture in the various provinces should take in hand the task of explaining to him all these things. The agricultural farms that have been established in some provinces are doing good work and if the peasant were, off and on, to visit them he can derive great benefit. But he is either ignorant of their existence or is too lazy to go to them. Result—the whole thing moves at a snail's pace and India continues poor. What is needed is that the modern system of agriculture should be explained and demonstrated to him before his village gate as much as possible. The provincial departments of agriculture should have motor lorries and vans, fit them up with exhibits, pictures and models and send them on tours in their respective areas. The showing of films bearing on agricultural life should certainly form an important constituent of the propaganda.

—G. D. K.

REVIEWS OF BOOKS

POST-WAR GERMANY, by Prof. K. T. Shah, M A., Professor of Economics, University of Bombay. Published by Messrs. D. B. Taraporevala Sons & Co., Bombay. Pp. 228. Price Rs. 2-8.

Professor Shah is a well-known figure in the Indian economic world and needs no introduction to Indian readers. His 'Post War Germany' is a publication in book form of a course of five lectures which the professor delivered at Bombay under the auspices of the University School of Economics and Sociology. Lecture 1 deals with the foundations of the Post-War Reich as a Commonwealth; Lecture 2 with the Reparations problem; Lectures 3 and 4 deal with the political and economic framework of Germany: and the last Lecture deals with Germany's future in the comity of nations and as a factor in peace and progress.

The chapter on reparations is a very interesting reading not only as indicating the wonderful patience of a great nation in adversity but also as indicating how low victorious nations may descend in being vindictive. Still the slow steps through which the problem is being developed affords an instructive study in the moral history of nations.

In dealing with the German Constitution, Professor Shah quotes with evident approval certain very interesting features of the country :

'The organisation of the economic life must accord with the principles of justice, aim at securing for all conditions of existence *worthy* of human beings.'

'Every German is under a *moral* obligation without prejudice to his personal liberty, to exercise his mental and physical powers in such a way as the welfare of the community requires.'

'Every German *shall* be given a chance to earn a living by economic labour, in so far as no suitable work can be found for him, provision is made for him by the state.'

Noble sentiments undoubtedly, but of what use to put them in a constitutional document?

Professor Shah appears to be an incorrigible optimist in thinking that the state can do everything for the people—a hope which the reviewer is unable to share. There are many difficult problems involved. Who is to find out who is fit for any one kind of work and not for any other? What is going to be the cost of a guarantee of a life for all which will be worthy of human beings? It is very easy to put all so-called rights in a printed document, but in practice it is an open question if these hopes can be realised at all.

A little later in page 112, Prof. Shah says : Only after ordaining such perfect equality, unassailable by any advantage of birth or caste, can we hope to assume to ourselves that with us, only merit shall rule and mediocrity shall not govern. It is difficult to understand what exactly Mr. Shah wants. It is inconceivable that all advantages could be abolished unless of course Professor Shah is able to bring about a Deluge and then recreate a New Heaven and a New Earth from out of his imagination. After all it is a difficult thing to prevent mediocrity ruling if you want a democracy of mediocrities. It cannot be otherwise.

Professor Shah finds other happy ideas in the German Constitution as the endowment of motherhood and reward for large families. These ideas have very carefully to be considered in any country if we want to avoid putting a premium on idleness and waste.

Mr. Shah says (page 201) that a socialist reorganisation of society seems to be inevitable as the sun and the moon and all the stars. One cannot help feeling that the analogy is extraordinarily unhappy. The sun and the moon and all the stars are all there, they have not to come yet, but Mr. Shah's socialist society is yet to come. It may or it may not come. It is still an open question whether society would be all the better for making the state the monster rather than the capitalist. It appears as though Professor Shah wants to read his own mental predilections in the evolution of the world.

At a later stage Mr. Shah gives us a very interesting survey of the youth movement in Germany and all its implications. But his characterisation of the movement as 'a revolt against the soulless mechanisation of the age, and a protest of Youth against the greed and lust and stupidity of age,' appears to me to be an exaggerated appreciation of the Youth but also an unwarranted denunciation of other sections of the community.

Professor Shah is a great admirer of the revolt of the Proletariat, but it is something of a double-edged sword. It has potentialities for good, but it may also annihilate all that is good in the community. The crux of Professor Shah's obsession is seen when he quotes with alacrity Mr. Rathenau as indicating a solution of all our difficulties by 'transforming the present commercial structure into one of *perfect* equality on the basis of complete equality of worldly possessions—all surplus wealth being made over to the state for common benefit in an organised, systematic plan.' This is really Communism with a vengeance, and it may be that when wealth is divided equally there may not be any surplus wealth to be transferred to the state by the individual to be spent on what Mr. Shah would call the common benefit on an organised or any plan.

There is no doubt that apart from any opinions expressed Mr. Shah has done good service to Indian students interested in the Germany after the war by bringing together very valuable materials which are not easily accessible in this country.

S. V. AYYAR.

WOMEN IN MODERN INDIA, by Mithan Choksi & Eleven C. Gedge. Pp. 161. Price Rs. 4. Published by Messrs. D. B. Taraporevala Sons, Bombay.

The book containing fifteen papers, contributed by Indian women of outstanding fame, such as Mrs Kamaladevi Chattopadhyaya, Miss Tilak, and Miss S. Sorabji, appears at an opportune moment when India is passing through a crisis and when Indian problems are arresting the attention of the world. The book gives a wonderfully self-revealing picture of awakening Indian womanhood. It is a vivid, authentic, and intimate record of the many phases of women's progressive work in India.

The bulk of the essays contributed speak of the great work that has been already achieved along social lines. They point out institutions like Sharada Sadan and Seva Sadan as living monuments of what brave and nobl hearts can achieve, towards the uplift and betterment of suffering humanity. Women's Conferences, Associations and Councils are formed in different parts of India to unite women of different communities for considering and tackling social problems. Evils like, child-marriage, enforced widowhood, strict purdah, caste antagonism are fast disappearing under the influence of systematic and vigorous propaganda carried on by these councils. The problem of infant and maternal mortality is also being solved, and the maternity and child welfare centres are hard at work to raise the masses from their ignorance and superstitions. Much more remains to-be done along that line as well as in the new fields of work among children and industrial workers.

The remaining essays deal with the achievements of women, in the field of politics, literature and fine arts.

The greatest triumph of Indian womanhood in the field of politics has been their entry into the Legislative Councils. Now nominated women sit in three provincial legislatures. In Madras a lady-member is the Deputy-President of the Council.

With the awakening of Indian womanhood education is making rapid strides. The number of schools and colleges is increasing in all provinces. An All India Women's Conference was organised in 1926 to push forward reforms in education.

From ages past women have contributed their share in literature. But during recent years owing to the spread of general education more and more women are coming to the front as novelists, poets, journalists, and dramatists. Women poets like Toru Dutt, Aru Dutt and Mrs. Naidu have immortalised their names by their contribution to English literature.

Little has been done by women in painting and music. But the importance of these subjects in the education of girls is felt and they are being introduced in all schools and colleges, at Bolpur along with the school and college, there is a Kala-Bhavan, a school of art and music, and all girl students attend this school.

It is difficult to convey a correct idea of the value of this work.

The essays are all written in simple language and the contrast in their subject-matter makes the book an interesting reading. Every essay throbs with sincerity and the passions for reform though interpreting themselves, the essayists have not allowed their enthusiasm for the cause to get the better of their judgment, and never once have the bounds of strict impartiality been exceeded. Every defect is carefully analysed, and criticism and suggestions for reform, are offered. There can be no doubt that the book will be an eye-opener to those whose information has been derived solely from works of interested propagandists or prejudiced observers. If only it receives the circulation which it deserves this noble work will go a long way in removing misconceptions, and restoring Indian womanhood to its true place in the opinion of the world.

M. UTHAP.

GEOGRAPHY AND MAN, by J. T. Goodchild, M.A. (Sheffield), Professor of Economics and Geography, and Dean of the Faculty of Commerce, St. John's College, Agra. Published by the National Press, Allahabad. Pp. 148. Price Rs. 2.

In this book Prof. Goodchild has made an analysis of the various geographical factors that influence human life and activity. In fact our occupations, and our physical, mental and spiritual growth are all governed by our surroundings and climatic conditions. In studying the effects of environments he considers three factors, viz., (1) Physical Geography, or the study of the earth's surface; (2) Geology, the study of the earth's structure, which is mostly neglected; and (3) the study of the Primary Occupations, such as hunting, domestication of animals, agriculture, etc., in relation to the particular environments in which each has developed.

Besides the effect of environment, Mr. Goodchild mentions two other factors in Chapter I, viz., (a) the *effect of heredity*, which itself can be traced to the conditions of life of our ancestors, and (b) *man's efforts in changing his environment* to his own advantage. Indeed man has attained a large measure of success in combating nature, although most of the forces of nature are beyond his control and whose influence he can never escape. In Chapters II to V, the study of Earth's surface is continued with many geographical details from all parts of the globe. Thus in Chapter II the formation of different types of coastal plains, plateaux, and mountains is discussed at length, and their influence upon the lives of human beings is severally explained. In Chapter III a similar study of valleys, rivers, deltas, lakes, coast-lines, and soils is made with numerous illustrations. The influence of weather conditions upon human life forms the subject-matter of Chapter IV. In the Fifth Chapter the effect of vegetation in decidous, evergreen and coneferous forests, and of the forest industries upon human life is considered.

In Chapters VI and VII the causes of the growth of towns are discussed. In the latter chapter the effect of transport facilities as influencing the distribution of population is very well explained and illustrated. In Chapters VIII to X some of the primary occupations are dealt with, and the progress of civilisation is very ably explained in Chapters XI and XII. In the last chapter the subject of colonisation is treated, and an explanation of how colonies are formed is given. Also the relationship between the settlers and the native people is discussed.

On the whole, the attempt of Mr. Goodchild is original and well-executed, although at certain places the reading becomes rather dull owing to the numerous geographical details. The book should prove useful to the commerce students and to those who take the paper on Economic Geography for the M.A. examination. The get up of the book and its printing are A1, but the price of the book appears to be a little too high, when the size of the book is taken into consideration.

B. S. AGARWALA.

ECONOMICS OF PROTECTION IN INDIA, by Prof. V. G. Kale, Poona, 1929. Pp. 94. Price Re. 1.

This short monograph consists of a series of lectures which the author delivered as the Banaili Readership Lectures at Patna University in 1928. The author examines the policy of protection from the theoretical and the practical point of view. Serving as a member of the Tariff Board for two years he had exceptional opportunities to study the "protectionist" theory and apply it to concrete cases. The experience gained in this connection has been fully utilised in the preparation of his monograph which will prove an invaluable work of reference not only for the advanced student but for the businessman also. He is careful enough not to burden the monograph with an elaborate discussion of the actual working of the Protective Tariff and the development of specific industries under its regime. Similarly the oft-discussed subject of Imperial Preference in its bearing on the economic development of India is omitted.

Beginning with the discussion of the essential reasons which make nascent or struggling industries apply to the state for a measure of protection for a temporary period he discusses how and to what extent the grant of protection can be made after a thorough analysis of the costs of production, the promised economies which might lead to a lowering of the cost of production, the sacrifices which the consumers might be called upon to make and the ultimate benefit to the nation which is willing to make the sacrifices so that a harmonious, many-sided, and well-organised development of agriculture, commerce and industries can be systematically promoted. The concrete references here and there to the steel, the paper, the matches and the cement industries clarify the lines of reasoning adopted by the author.

Summing up his lucid exposition the author aptly remarks that "the present position and the prospects of industries in India call for an examination" in the light of the economic advantages and limitations of a policy of free trade or protection. In the light of such an examination the country has to adopt measures for the well-being of the community. As this larger and general question of a policy of protection has not been discussed by the Tariff Board, the author has done a significant service by drawing attention to this question.

B. RAMACHANDRA RAU.

CO-OPERATION AND RURAL WELFARE IN INDIA, by B. B. Mukerjee, M.A., B.L. Published by Thacker Spink & Co., Calcutta, 1929. Pp. x-198. Price Rs. 3 only.

The book under review is an attempt to draw the attention of those interested in Rural Problems to the great services which co-operation can render to the cause of rural welfare in India. The work is divided into five chapters. In the first chapter the author has analysed the problem of Rural Welfare, and is of opinion that the present decayed condition of the Indian rural life is due to the fact that our villages are "undergoing a rapid transformation. It (rural life) has left its old moorings and is gradually drifting away. The custom based on foundations of the old village community gave it a stability to which it had got itself well adjusted, hence it is that the shock and jar of the present upheaval and being so keenly felt." To make it possible for the village people to adapt themselves quickly to the demands of the new situation the author considers that "education affords the only lever which can pull up the village community. This education must be so planned as to fit in with village life. It must be such as can change the whole outlook on life of the villager."

In Chapter II entitled Better Farming the author has analysed the causes of agricultural backwardness in Indian villages and has suggested a number of ways in which agriculture can be improved. It is while making the suggestions for improvement that the author has tried to show what co-operation can do in the matter. The analysis as well as the methods of approach suggested are both clear and convincing.

In Chapter III entitled Better Business, the author observes that "Agriculture has ceased to be a paying industry," therefore "the work of the reformer consists in arresting these disruptive tendencies and in building on these materials the village community of the future." To secure better business for the countryside Mr. Mukerjee has emphasised the need of organising co-operative marketing and by taking definite illustrations from Bombay and outside India has shown what co-operative marketing can do in this direction.

In Chapter IV we find the author reverting to the educational value of the co-operative movement. He observes that "The co-operative principle is not merely an economic principle prescribing a certain course of action in order to

bring the struggle for existence to a victorious issue. Its spiritual aspect raises it above the materialistic plane and sustains it above the din and bustle of everyday strife." The author looks upon co-operation and that rightly as a great educational force and observes that " It is the duty of the co-operators to help the Government in tackling the problem of mass education." In this chapter a great mass of information is given by the author to show what co-operative movement has done for education in other parts of the world, specially in Europe.

In Chapter V which is the last the author has given us an account of some experiments in Rural Reconstruction. Here we get an idea of what Mr. Brayne succeeded in doing at Gurgaon in the Punjab, and what Mr. V. N. Mehta could do at Benares in the United Provinces. The work of Sir Rabindra Nath Tagore in the villages near Bolpur in Bengal is also succinctly described. After describing these various efforts at Rural Reconstruction the author observes that " One thing clearly emerges, viz., the success of these attempts will lie in our looking upon the village as a social organism which lives, grows and decays and is capable of being revived. Like all organisms, the vitality of the village can be kept up not by the application of external stimulus but by developing the different limbs and making them strong. . . The work of Rural Reconstruction in India consists in revitalising the village organism by bringing back its corporate consciousness through the strengthening of its limbs." And this work of revitalising who can gainsay the power of co-operation.

By writing this little but forceful book Mr. Mukerjee has done a valuable service to the rural masses in India. The problem of rural reconstruction is so urgent and so vital for the regeneration of the life of the Indian nation itself that all such efforts as that of Mr. Mukerjee, which try to show us the way should always be welcome.

B. G. Bhatnagar.

Economic Principles for Indian Readers, by Dr. Praphulla Chandra Basu, Principal, Holkar College, Indore. Sir Isaac Pitman & Sons, Ltd., London. Pp. 348. 1927. Price Rs. 7-6.

By writing this book Dr. Basu has attempted to remedy a serious defect in the study of Economics in India. English and American authors generally explain the principles of Economics with the background of social conditions and institutions which are alien to the experience of Indian students. Therefore our students sometimes experience great difficulty in understanding these principles or in applying them properly to Indian conditions. The book under review aims at giving the principles of Economics with an Indian background, illustrated from the facts of Indian life. The book is written in a simple language and will undoubtedly prove very useful to college students for whom it is primarily written.

The book has been divided into the following six parts—Introduction, Production, Exchange, Distribution, Consumption and Public Finance. Under Exchange, theories of value, International Trade, Free Trade and Protection, Money, Credit, System of Banking, Co-operative Credit and Indian Currency and Exchange have been briefly dealt with. Thus nearly the whole field of Economics has been covered, though the treatment of some parts has necessarily been very brief and discussions of divergent opinions among Economic writers on some important problems have been deliberately avoided.

The author has admitted in the Preface that with the exception of a law in Consumption there is very little new or original in the book. The law which was formulated by Dr. Basu for the first time in the Indian Journal of Economics (October, 1927), runs as follows :—

"A unit of consumption is a necessary comfort, or luxury according as its consumption and deprivation bring about respectively an increase and a decrease, no increase and a decrease, or no increase and no decrease, in the productive efficiency of the particular consumer at a given time and a given place! We think that the law requires a slight modification in accordance with the suggestion of Mr. J. K. Mehta contained in an article published in the Indian Journal of Economics for April, 1929.

The book will also prove useful to the wider public who have little time or opportunity to go to big books for a working knowledge of economic principles in general.

Daya Shankar Dubey.

Prof. Phadke has presented a very clear exposition of birth control. There is no question that the control of the size of a family is a pressing problem of the day on economic and hygienic grounds, specially in a country like India where immature marriages are the order of the day. Eugenics is to be preached more and more in India—it is a pitiable sight to see the pale and sickly appearance of child-mother, who should be a picture of health, roaming about full of buoyancy and life. The eyes of the orthodox should be opened by reality. Prof. Phadke's book says that menstruation is not synonymous with sexual maturity. The book is heartily recommended to Indians.

B. K. M.

Great Britain from Adam Smith to the Present Day, by C. R. Fay. Longmans, Green & Co., Ltd., London. 1928. Pp. 458. Price 12-6 net.

This is a noteworthy work on the economic history of Great Britain from the dawn of the 18th century to the present times. It opens with an essay on the *Wealth of Nations* the publication of which in 1776 was perhaps the most notable event of the 18th century. The *Wealth of Nations* rang out the old and ushered in the new in economic affairs; it smashed the Mercantile doctrine and

founded a new science (p. 6). The essay discusses the environment of Adam Smith, his predecessors, the merits and demerits of the *Wealth of Nations*, and its influence on economic life.

The essay is followed by the topic proper of the work, *viz.*, the economic history of Great Britain during the period referred to. This is divided into four parts. Part I, Fiscal Policy and Finance describes the financial policy of Walpole, Pitt, Huskisson, Peel, Gladstone, Joseph Chamberlain and McKenna. It tells us how the policy of free-trade which reached its culminating point about the middle of the 19th century, and followed throughout that century, has, during the present century, been, under the stress of changed conditions, yielding place to Imperial preference "though there has been no overt breach in the fiscal system of the country" (p. 86). The changed conditions leading to the change in the fiscal policy are described thus :—"When the world lived on Lancashire cotton, Cardiff coals and the London money market, the policy of free-trade was justified by the facts But this situation passed away with the war. In the early days of the industrial revolution other countries had to adjust themselves to the fiscal policy of Great Britain in her ambiguous course towards laissez faire. . . . Today it is the task of Great Britain to adjust herself to a world scheme in which the open market is always disappearing over the edge of the fiscal horizon" (p. 323).

Part II, Trade and Transport concerns itself with Great Britain's foreign trade, ports and shipping, roads and canals, railways and motor transport, and posts and telegraphs. Part III, Agriculture and Industry discusses the improvements in agricultural methods and technique, the use of steam power, the course of mechanical inventions and their employment in different industries, and the rise and growth of the iron and steel, the textile and other industries. This part revolves round the development of the iron and steel industry as it was this that revolutionised industry and made our age an Age of Steel. The development of the steel industry the world owes to three Englishmen, Bessemer who invented the 'converter' (1856), Siemens who produced the 'open hearth process' (1866), and Gilchrist Thomas who is responsible for the 'basic' process (1878) (p. 273). Part IV, Life and Labour narrates the repercussions of the industrial revolution on the life and thought of Great Britain, the origin and spread of the labour movement as well as of friendly societies and co-operation and the problems connected with these.

We welcome the work. It represents a comprehensive and illuminating study of Economic Britain during the period 1700—1925.

G. D. K.

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CURRENCY IN SHIVAJI'S KINGDOM

BY

PROF. V. G. KALE,

Poona

Some very interesting documents relating to the times of Shivaji, the founder of the Mahratta Empire, have been recently published by the *Bharata Itihasa Sanshodhana Mandala* (Indian Historical Research Society) of Poona, which are calculated to throw valuable light upon the economic and social life of the people of Maharashtra in the seventeenth century. Of course, the material that is even now available, for writing a connected, full and satisfactory history of Shivaji and his times, is far from adequate, and those conversant with the subject, are aware how there are gaps and doubtful points in the story of the Mahrattas of those days, which remain to be negotiated and cleared. Only contemporary records of facts and events, whose genuineness it is not possible to question, will really help in this matter, and it is encouraging to notice that enthusiastic and sustained efforts are being vigorously made in Maharashtra to search for and secure every scrap of

paper in Persian, English, French and Dutch as well as in Marathi, that is calculated to contribute to our knowledge of the early history of the Mahratta people. The inherent difficulties of the task are obvious, but from the number of the useful authentic documents which have been recently unearthed from their neglected or jealously guarded hiding places, it is permissible to hope that in a few years the material will reach a volume that will go a long way in satisfying the needs of an exacting historian.

Research workers have so far almost concentrated their attention on political events, the fixing of dates, discussion of disputed opinions and filling up of gaps. The economic side of history has been sadly neglected, owing mainly to lack of interest and materials and also to the primary importance of constructing a connected and intelligible story of Shivaji's career. It is, therefore, worth while attempting to put life into the dry bones of the documents of economic significance which have been already published. Original, authentic records in Marathi are extremely valuable for this purpose. It is said by one school of historians who have dealt with these documents that they are an unreliable guide inasmuch as many of them are fabrications. But those who have actually seen, studied and used these papers very properly object to this indiscriminate condemnation as prejudiced and ignorant exaggeration. Surely the critical acumen of a keen-witted student of history ought to enable him to extract truth even from records which are not all he would wish them to be. Apart from this altogether, the Marathi papers which have been and are being published, undoubtedly constitute an exceedingly reliable and fruitful source of information bearing on the history of the Mahratta people. So far as its economic side is concerned, the material is indeed inadequate, but such as it is, it is absolutely dependable and suggestive.

We shall, in this article, confine our attention to references to the currency that was in use in Maharashtra during the seventeenth century. The coins that are frequently referred to in

the published documents, are *hons*, rupees, *takkas* and *rukkas*, *larees* being mentioned in papers relating to the western coast. Both for industrial and monetary uses, gold appears to have had the same fascination for the public mind in Shivaji's kingdom as in the modern world of to-day. There was no fixed standard of value, and the various coins, made of gold, silver and copper, circulated at their relative market values. The *hon* is an ancient gold coin and is connected by phylologists with the Sanskrit *suvarna*. It was very common in South India, and particularly in the Vijayanagar kingdom. *Hons* bearing various names are mentioned in our documents, but the *Padashahi hon* predominates. The power and the prestige of the Bijapur and other Sultans seem to have imparted to their *hons* a unique measure of reliability and acceptability. As an important incident of sovereignty, Shivaji had his own *hon* coined, and specimens of it have been found. It will be surprising to know that in spite of the very high purchasing power of money in Shivaji's time, compared with what it is to-day, the gold coin was used in those days in all kinds of accounts and transactions, though this was, of course, impossible in the ordinary day-to-day dealings. Thus the land revenue of villages is fixed in terms of *hons*, and the coin figures in a similar manner in royal grants, in loans and in sales and purchases of property.[1] The *mohor* is rarely mentioned in the documents of our study, and references to it occur, if at all, as a piece of bullion rather than as a coin. Ranade observes:—"Krishnaji Anant Sabhasad, the writer of one of the best *bakhars* of Shivaji and his times, mentions no less than twenty-six different sorts of *hons* or gold coins of different values and weights current in Southern India in the seventeenth century. Some of these apparently bore the names of the sovereigns of Vijayanagar, such

1 "It was the gold coin which enjoyed the largest circulation, and the silver rupees were only subsidiary to it. This fact is best evidenced by the sanad grants of cash allowances issued by Shivaji"—Ranade: "Currencies and Mints under Mahratta Rule."

as Shivaraya, Krishnaraya, Ramaraya, etc. But many more were called after the places or towns in which they were coined or issued. As the Vijayanagar kingdom had ceased to exist after 1564, these local currencies must have been allowed to continue by their Mahomedan successors. The Mahomedan rulers of the Deccan issued their own gold and silver coins such as the Shahi rupees and the Padashahi *hons* which latter are mentioned by Sabhasad."[2]

The *hon* appears to have weighed from $2\frac{3}{4}$ to $3\frac{1}{2}$ *masas*. According to Ranade, the latter weight was quite common in the time of the Peshwas, and presumably the Padashahi *hon* of Shivaji's time contained the same weight of gold. Shivaji's copper pice, known as the *shivarayi*, was current in Poona till the close of the last century, but his silver rupee has not yet been traced. Shivaji's *hon* which was exactly like the *hon* of Sadashivaraya of Vijayanagar, weighed slightly more than three *masas*.[3] The *hons* were spoken of as "Pagodas" by Europeans, and Mr. Moreland[4] tells us that he could find no numismatic data showing the precise metallic contents of the different pagodas and follows the account of their values given by Tavernier. Captain Jervis,[5] however, gives us the definite weights, and according to him, the weight of the common *hon* or pagoda was 61·2 grains troy, while that of the Satara pagoda was 50 grains and the Sheerkanee *hon* of Sholapur and Raichur weighed 49·5 grains. Following Tavernier, Moreland states that the old pagodas of the Vijayanagar Empire were at a premium as compared with those struck later by the Mahomedan rulers of the Deccan. Moreland gives the rupee equivalent of the old *hon* as Rs. 4 to 5 and of the new one as Rs. 3 to $3\frac{1}{2}$. It has been calculated[6] with reference to Akbar's coins that the ratio

2 Ibid.

3 The Bharata Itihasa Mandal's Panchama Sammelan Vritta, p. 121.

4 From Akbar to Aurangzeb.

5 Captain I. B. Jerrvis: "Weights, Measures and Coins of India."

6. V. C. Bendre's article in the Quarterly Journal of the Bharata Itihasa Mandala, Poona.

between gold and silver was 1:9·4, and if we suppose that the same ratio held good in the Deccan about the time of Shivaji's birth, the current *hon* in Maharashtra should have weighed slightly more than 3½ *masas* or about 58 grains troy. In an old Marathi document[7] giving the detailed land revenue demand of the government according to the system of Malik Ambar, the *hon* is taken at Rs. 3 in value. In a paper dated 1637 A.D. containing particulars of an account between certain parties in Supa (at present in Poona District), we find a *mohor* valued at Rs. 13; and Rs. 44 are taken as the equivalent of 13 *hons*. One does not know what the weight of this *mohor* was. Among the numerous gold coins struck in Akbar's mints there was one which weighed 1 *tola*, 2 *masas* and 4¾ *gunjas* and it appears to come very near the above-mentioned *mohor*. We have another record[8] of market prices in Maharashtra dated Shaka 1628, that is, 1706 A.D. in which the *mohor* is valued at Rs. 13-13¼. What is more interesting in this statement of market rates is that we have there the relative values of gold and silver definitely given. Gold is Rs. 14 per tola and silver is 12¼ *masas* per rupee. The ratio of gold to silver, therefore, works out at 1:14½ and not at 1:9·4 as in the case of Akbar's coins as mentioned above. The weight of the *mohor* whose price is quoted in the two price lists referred to already, must, therefore, have been about 11 *masas* and 1 *gunja* and at Rs. 3, the *hon* must have weighed about 2½ *masas* and at Rs. 3½, 3 *masas*. We find among Akbar's gold coins, one approximately of this weight, but its value in silver is given as Rs. 9 and not Rs. 13 as in relation to the Deccan coin. The disparity in the ratios of gold to silver may perhaps be accounted for by the fact noticed by Ranade, viz., that "in North India the silver rupee coin circulated most widely and the gold *mohor* was only a supplementary coin," while "in Southern India the condition of things

7 "Marathyanchya Itihasachi Sadhane," Vol. 20, p. 19.

8 "Purandore Daptar" I, p. 16.

was reversed, especially to the south of the Krishna river." Gold being preferred for the purposes of coinage, the monetary demand for silver was small and hence the cheapness of the white metal in Southern India as compared with the north. In the earlier Mahratta records, the silver coin is less frequently referred to than the gold and the copper currency.

The most interesting monetary unit which we come across in these early records is, however, the *takka,* and it is usually associated on the lower side of value with the *rukka* and on the higher, with the *hon.* It is an undoubted fact that 48 *rukkas* made a *takka.* But the baffling questions that must be asked in this connection are, was this species of money, viz., the *takka,* merely a money of account or was it a coin? If it was a coin, was it made of silver or copper? And what were its metallic contents and values? We call these questions baffling because not only are the *takka* and the *rukka* used in our records also as measures of land,[9] but they clearly refer to different values as monetary units when they are so used. The word *takka* was first of all, loosely used, as it is used even to-day, to mean money in general and the term is used to mean a rupee, I believe, in Bengal at the present moment. As a copper coin, the *takka* is identified with the *dam* of North India and is believed to be equivalent to two pice in value. Moreland says:—" *Tacka* is a word which is sometimes difficult to interpret. The Dutch took the rupee at 24 of their *stuivers,* so *tacka* here denotes Akbar's *dam,* about 30 of which at this time went to the rupee." In his " Indian Economic Life," Prof. Brij Narain says:—" Now a *tacka* means 2 pice. 5 or 6 *tackas* would be 10 to 12 pice. If 55 pice are reckoned to the rupee (see below) 5 or 6 *tackas* would be equal to 4½ to 5¼ *stuivers* (24 *stuivers*=1 rupee)." The *dam* was thus equal to 2 pice, but its relation to the rupee varied, and in 1637, 50 to 55 pice made the rupee.

9 The measurement of land as so many *takkas* or *rukkas* in the sanads—village papers of Shivaji's time—opens up an interesting problem which I hope to discuss on another occasion.

About 30 to 40 *takkas* must, therefore, have gone to the rupee in the seventeenth century, if we may strike an average. It is curious to note that the *paisa* is rarely referred to in the earlier available Mahratta records in which *rukka* and its multiples like the *tiruka* and the *sasagani* abound. The Shivarayi pice was ten *masas* in weight and there was also a double pice or the *dhabu* which weighed 22 *masas*. This latter coin probably corresponded to the *takka* and the *dam*. Akbar's *dam* is said to have weighed 20 *masas* and 7 *gunjas*. We may, thus, presume that the *takka* of the Mahratta records of Shivaji's time referred to a copper coin of somewhat similar weight and value.

But we have reason to believe, on the strength of authentic and indisputable evidence, that the *takka* must also have been a money of account of a higher denomination than a *dam* or a *dhabu*. A silver *takka* is not known, and a copper *takka* of such a high denomination as 4 or 5 annas, is inconceivable as a coin, as we shall presently see. An order in connection with an Inam, dated 1694 A.D., contains the following calculation:—" Daily 25½ *rukkas*, and taking 354 days to the year, the total works out at 188 *takkas* and 3 *rukkas*, which at 12 *takkas* to the *hon*, makes 15⅝ *hons*." If the *hon* is taken at Rs. 3, the *takka* is equivalent to 4 annas. In another paper of an earlier date,[10] 11 *takkas* are as equivalent to a *hon*. In a document of the year 1630 A.D.[11] 481 *takkas* have been converted into 45 *hons* which gives 10¼ *takkas* to the *hon*. Similar instances may be quoted *at libitum*, but one more reference will suffice. In a statement[12] of market quotations for a town in the Satara District, and dated 1666 A.D., the selling and buying rates for the *hon* are given as 9¾ and 9½ *takkas*. It should be noted that the word *takkas* is qualified by the word *khurda* which precedes it. Now *khurda* has been defined in the *Rajyavyavahara-Kosha*, a compilation prepared by a learned

10 " Samartha Sarupvadayachi Kagadapatre," pp. 45-46.

11 Shivacharitra Sâhitya, Vol. II, p. 162.

12 Shivacharitra Pradap.

Pandit under the orders of Shivaji himself, to supply Sanskrit equivalents for Persian words in administrative terminology, as *tamra-dravya*[13] or copper money. It must, therefore, be tentatively concluded that the *takka* besides being a copper coin of small denomination, must have been a money of account also, about a fourth of a rupee in value.[14] Further discussion of this subject has to be put off to another article, as the hypothesis advanced here needs to be developed and more clearly explained.

13 "ताम्रद्रव्यं तु खुर्दा स्यात्"

14 A copper coin of the value of a fourth of a rupee would have to weigh about 20 tolas! It is, therefore, an unthinkable proposition.

MORTGAGE DEBT OF MYSORE VILLAGES

BY

V. L. D'SOUZA, B.COM. (Lond.)

and

B. S. KRISHNASWAMIENGAR, M.A.

1. The Method of Investigation.

The investigator of mortgage indebtedness first turns his attention to the annual reports of the Registration Department, hoping to find therein all the data he requires for a scientific examination of the problem. As it usually happens the administration records, though they contain much useful information, are sadly deficient in one or two respects which are fundamental to the enquiry. Consequently he is led to the Registry Offices themselves wherein all mortgages of the value of Rs. 100 and above are compulsorily registered and those below the sum of Rs. 100 are registered at the option of the parties. The registered documents also contain data which are certainly more informing than those found in the annual reports of the Registration Department, but do not comprehend every important circumstance of mortgaging without a knowledge of which the scientific value of his conclusions will be greatly diminished. The investigator therefore will not only make use of the annual reports of the Registration Department as well as the detailed records of the Registry Offices but will carry out his enquiry to the last stage, viz., an examination of the individual mortgages of at least a few typical villages. Thereby he will verify the data supplied to him by the official agencies and also collect information on all those aspects of mortgages which do not interest the official agencies.

This part of the enquiry is concerned with the results of a detailed examination of all the mortgages in 128 villages of the Mysore State scattered in all parts of the country and representative of the different economic regions. A schedule was drawn up with headings and blank spaces, printed and widely circulated. The Revenue Department issued instructions to the local officials to aid in the enquiry and they in their turn supervised the work of the Shekdars who were charged with the returns in their own particular area. To satisfy ourselves that the returns were accurate and the schedules properly filled up we visited several of those villages which were selected for the enquiry. Thus every safeguard has been adopted to ensure the accuracy and reliability of the original data. Altogether 128 villages were surveyed and all the mortgages in those villages, 1,226 in number, were studied. The schedule contained 16 columns:—

1. Name, caste, occupation of the mortgagor.
2. Name, caste, occupation of the mortgagee.
3. Total area owned by the mortgagor.
4. Total area mortgaged by the mortgagor.
5. Total area cultivated by the mortgagor.
6. Total cultivated area mortgaged by the mortgagor.
7. Year of mortgage.
8. Period of mortgage.
9. Causes of mortgage.
10. Simple or usufructuary mortgages.
11. Mortgage debt.
12. Rate of interest.
13. Land revenue of the mortgaged land.
14. Year of redemption.
15. Method of redemption.
16. By whom effected.

2. Classification of Mortgages.

	No. of Cases	Area involved (in acres)
Total mortgages in 128 villages ...	1226	12,407
1. Mortgages by agriculturists ...	1061	9,254
(a) to agriculturists ...	490	3,985
(b) to non-agriculturists ...	571	5,269
2. Mortgages by non-agriculturists	165	3,153
(a) to agriculturists ..	54	340
(b) to non-agriculturists ...	111	2,813

The salient point to be noted is that the agriculturists have mortgaged 5,269 acres to non-agriculturists, while the latter have mortgaged only 340 acres to the former, thus leaving a balance against agriculturists and in favour of non-agriculturists of 4,929 acres. The position may be compared with that of the Punjab. Investigation conducted by the Punjab Board of Economic Inquiry in two assessment circles of that Province showed that there was a balance of 871 acres in favour of agriculturists, the total area mortgaged being 21,789 acres. One is led to observe that in the Mysore villages the non-agriculturist money-lender is predominant. The need for agricultural credit can be met only to a limited extent from the resources of the cultivating villagers.[1]

In all parts of India there is a general impression that land is continually passing from agricultural to non-agricultural classes and the hereditary cultivating class is being expropriated by those who do not themselves cultivate the land. The Royal Commission on Agriculture expected that evidence would be furnished which would confirm the general impression. But outside the Punjab no

1 *Vide* Rural Section Publication—5 by Singh and Calvert, p. 2.

Ibid—14 by Akhtar and Calvert, p. 2,

figures were placed before them and they had to be content with repeating the general information that there is continuous transfer of land from the ancestral cultivating classes to non-agriculturists.[2] The present inquiry shows that Mysore is no exception to the general rule. In fact the transfer of land is proceeding apace in the State and the only way to stop it is by statutory restriction of alienation of land such as is brought about by the Land Alienation Acts of the Punjab and the Central Provinces. The seriousness of the position in Mysore is brought out by the figures given below, though it must be borne in mind that every mortgage transaction does not result in an immediate transfer of property or possession.

In 490 cases both parties are agriculturists.

In 571 cases mortgagors are agriculturists and mortgagees non-agriculturists.

In 54 cases mortgagors are non-agriculturists and mortgagees agriculturists.

In 111 cases both parties are non-agriculturists.

The mortgages in the 128 villages under examination may be broadly divided into two classes—simple and usufructuary, or in plain language *without* and *with* possession respectively. In Kannada the former are known as *Adhara* and the latter as *Bhogya*. Almost all mortgages are of the simple type. Of the 1,227 mortgages 1,130 (92·2 per cent) are without possession and only 96 (7·8 per cent) are with possession. The amounts borrowed under each category are Rs. 8,48,525-1-5 (94·5 per cent) and Rs. 48,873-9-6 (5·5 per cent) respectively.

2 *Vide* Report of the Royal Commission on Agriculture, p. 421, para 355.

3. Area under Mortgage.

The classification of the total area mortgaged by different parties in all the 128 villages is given below.

Total area owned by the mortgagors ...	19,179	acres.
Total area mortgaged by the mortgagors ..	12,407	,,
Total area cultivated by the mortgagors ...	14,958	,,
Total cultivated area mortgaged by the mortgagors	10,940	,, .

Thus 64 per cent of the total area owned is mortgaged while of the total cultivated area 73 per cent is mortgaged. The balance is the margin available for further mortgaging. The margin appears particularly small when it is realised that mortgage is the last resort of the agriculturist. Prior to the act of mortgage he will have involved himself in various kinds of debt. Rather than mortgage his land and suffer his *izzat* to be lost he would raise a loan that while keeping his land unencumbered would jeopardise his economic independence. In a village there are several modes of obtaining credit: by oral contract without security, by unstamped chit, by entry in the sahukar's or trader's accounts, by simple bond with or without security, by pledge of movables by advances on growing crops, by account current, by simple mortgages and by mortgages with possession. The modes of incurring debt are several and the volume of debt fed constantly from these various sources keeps on growing. Expert opinion confirmed by our observation in particular areas considers that at the time of the harvest three-fourths of the rural people borrow for seed, manure or maintenance either grain or money. For this enormous load of debt the only security of the agriculturist is his cultivated land and of this land, as shown by our inquiry, he has mortgaged 73 per cent.

4. The Consideration Money.

Total consideration Rs. 8,97,398-10-11.

The following table gives the amount advanced by and owing to agriculturists and non-agriculturists :—

Advanced by agriculturists ..	to agriculturists Rs. 2,90,164-14-5 to non-agriculturists Rs. 61,543-3-0	Rs. 3,51,708-1-5	39 %
Advanced by non-agriculturists	to agriculturists Rs. 4,49,647-0-0 to non-agriculturists Rs. 96,043-9-6	Rs. 5,45,690-9-6	61 %

Total amount due from agriculturists	Rs. 7,39,811-14-5
,, ,, advanced by ,,	Rs. 3,51,708-1-5
Balance against agriculturists	Rs. 3,88,103-13-0
Total amount advanced by non-agriculturists	Rs. 5,45,690-9-6
,, ,, due from ,,	Rs. 1,57,586-12-6
Balance in favour of non-agriculturists	Rs. 3,88,103-13-0

The net effect of the advances on the agriculturists *qua* agriculturists is not to their advantage. There is a very large balance against the agriculturists and, as it happens in a good many cases, the debt may be liquidated with the consequence that land is sold or transferred to the mortgagee who is a sahukar or at any rate non-agriculturist. As was pointed out by the Deccan Ryot's Commission the debtor in fact defers mortgaging his land as long as he can probably because he knows that when it is once mortgaged he will find it very difficult to raise money from others and therefore experience has shown him that the mortgage is the beginning of transfer to the sahukar.

In the 128 villages the total consideration money amounted to Rs. 8,97,198-10-11. The average debt per village therefore works out to Rs. 7,010-14-0. And the average debt per mortgagor, there being 1,226 mortgagors in 128 villages, is represented by Rs. 731-15-6. When it is remembered that the average cultivated holding in Mysore is 6½ acres and that the predominant form of cultivation is " dry land " an average debt of Rs. 731-15-6 is very considerable. But a figure standing by itself is of very little

meaning. To bring out its real significance it has to be compared with the results of the enquiries made elsewhere.

Area		Average Debt
(1) 1895, the Madras Presidency		Rs. 190 per indebted family.
(2) 1907, Ahmednagar villages	...	Rs. 371 per occupant.
(3) 1913, Baroda State	...	Rs. 450 per individual holding.
(4) 1919, Bengal	...	Rs. 379 per co-operator.
(5) 1925, the Punjab	.	Rs. 463 per indebted proprietor.
(6) 1929, Mysore	...	Rs. 732 per mortgagor.

These figures were collected in widely-scattered areas, under varying conditions, at different times and for dissimilar units, factors which diminish their comparability. But they show beyond a doubt at least one thing, though not with mathematical accuracy, that debt in Mysore is a very severe burden.

5. Conditions relating to Interest.

The following table illustrates the rate of interest charged as well as the amount of consideration money:

Rate of Interest	No. of Cases	Consideration Money Rs
9% and less	146 (11·37%)	2,18,841 (24·38%)
Above 9% and not exceeding 12%	760 (58·9%)	4,91,190 (54·73%)
Above 12% and not exceeding 15%	176 (13·64%)	71,824 (8%)
Above 15% and not exceeding 18%	69 (5·35%)	24,760 (2·75%)
Above 18% and not exceeding 24%	15 (1·16%)	9,720 (2·75%)
Above 24%	1	40 (1·07%)

It can be stated that the normal rate of interest is in the neighbourhood of 12 per cent. Nicholson estimated the average rate on mortgage loans for Madras in 1895 at about 12 per cent[3] while Darling's estimate for the Punjab in 1925 lay between 9 and 12 per cent.[4] In the Mysore villages there were 27 cases where interest in kind was taken, the amount of consideration being Rs. 32,150. In a few cases instead of the interest being paid in money or in kind there was the "Jita" system by which the mortgagor himself or his representative undertakes to serve the mortgagee on his land for a stipulated period and do all the necessary labour on the mortgagee's land. Such a system is indistinguishable from serfdom.

The rates themselves must not be taken at their face value, for behind the loan transactions there are several invisible items which considerably add to the burden of the interest charges. Thus discount or commission is frequently deducted from the capital and interest itself may be deducted in advance to the advantage of the lender. Or again the amount may be overstated and numerous dues and services required of the debtor such as presents of vegetables, services of tanks, gifts of fodder and support in disputes. Bonds also contain penal rates in case of default. All these considerations obtain an added weight from the fact that the mortgages generally represent not a single transaction between lender and borrower but is the culmination of a series of transactions in which interest is piled upon interest. There is a particularly ruinous system existing in the districts of Kolar and Tumkur. It is known as the "Kanthu" system. The entire interest for the full period on the full sum is deducted in advance while the capital is made repayable in a fixed number of monthly instalments. No counter-interest is allowed on the instalments as they are paid off. In this way a 10 per cent nominal rate may

3 *Vide* Nicholson's Report regarding the possibility of introducing Land and Agricultural Banks in the Madras Presidency, Vol. I, p. 234.

4 The Punjab Peasant in Prosperity and Debt, by Darling, p. 218.

become 20 per cent in actual fact. Nicholson first drew attention to the "Kanthu" system as existing in some districts in the Madras Presidency, e.g., Sālem.

6. Period of Mortgage.

A statistical analysis of the mortgages shows that in 764 cases no period has been specified, in 327 cases the period is 5 years and less and in 135 cases the period is above 5 years. As a general rule the usufructuary mortgages run for a longer period than simple mortgages and mortgages in the *malnad* districts are of greater duration than those in the *maidan* districts.

The significance of the large number of mortgages without any specified period should not be lost sight of. The mortgagee does not demand repayment of the loan when the mortgagor is in good circumstances and the security in good condition but attacks him when he is in financial straits and may even coerce him into signing any terms. Moreover mortgages on demand or for very short periods are not calculated to benefit the mortgagor for it is not possible for any loan taken for such productive purposes as land improvement or purchase of cattle to replace itself in one or two years.

7. Methods of Redemption.

Method of Redemption	No. of Cases	Amount	Percentage of the Total Amount
		Rs.	
Automatic Redemption	43	18,044	2·01
By sale of lands	74	30,705	3·42
By savings	256	2,16,295	24 09
Miscellaneous	256	1,48,023	16·48
Not stated	661	4,84,330	54·0
Total ...	1290	8,97,397	100

Writers on rural indebtedness are prone to discuss at great length causes of mortgage, rates of interest, size of loans and so forth, but they hardly ever include a study of the methods of redemption within the scope of their investigation. That subject is entirely left to slipshod observation or facile generalisations. It is mainly to throw light on an aspect of the problem hitherto kept in the dark that we included in our schedule a number of questions regarding the redemption of debts. The data collected has been classified under several heads. The results arrived at are not very illuminating but are good indications of the extent to which providence and foresight plays in the borrowing transactions of the agriculturists.

Out of a total of 1,290 mortgage cases there was provision for automatic redemption in 43 cases and 256 mortgages were redeemed by savings. They represent only a fourth of the total transactions. As regards the remaining three-fourths it must be stated that there was no definite arrangement for redemption. In as many as 661 cases, a little more than half the number, the methods were not stated because there were no methods to state. The mortgagor had neither the ability nor the willingness to rescue his lands. The mortgagee, on his side, is reluctant to accept redemption, the reasons being the same as those adduced by the Report of the Royal Commission on Agriculture: "The repayment of capital soundly invested makes it necessary to search for another equally profitable investment; mortgages which have been in force for a long period give possession of larger areas for smaller sums than do new mortgages; and there is always the disinclination of the businessman to lose a satisfactory client."[5]

[5] *Vide* Report of the Royal Commission on Agriculture, p. 419, para 354.

8. Causes of Mortgaging.

Particulars	Expenditure of the total consideration			Percentage
	Rs.	a.	p.	
Settlement of prior debts	4,55,833	11	5	51·0
Purchase of land	54,650	0	0	6·09
Land improvement	36,890	0	0	4·11
Productive purposes—more than one ..	77,745	6	0	8·66
Purchase of family requirements	42,209	0	0	4·7
Marriage and other social functions	33,791	0	0	3·75
Unproductive purposes—more than one ...	85,445	0	0	9·52
Miscellaneous purposes	1,00,884	9	6	11·24
Not stated	9,950	0	0	·91
Total ...	8,97,398	10	11	100

The list gives the detail of the expenditure of Rs. 8,97,398-10-11 which is the total consideration. It shows that by far the largest item amounting to about half the total amount is "settlement of prior debts." The term is somewhat misleading because the item in the table does not generally mean a real liquidation of the previous debt but an arrangement whereby the creditor receives more tangible security than was formerly given. A settlement of prior debt thus in many cases amount to a renewal of debt.

The remaining amount of the consideration money that is a little under 50 per cent of the total, is expended on productive purposes such as land improvement and unproductive purposes such as social functions in about equal proportions.

A noticeable fact in the Table and one which has been confirmed by correspondence and experience is the insignificant

part played by land improvement in the borrowing programme of the cultivators. Anything that tends to the improvement of land tends to the increase of produce out of which the original outlay on the improvement and the interest charges can be met. The lack of foresight on the part of the agriculturists is best shown by the comparatively small amounts invested in the digging of wells, in the construction of bunds and in the deepening of tanks.

9. Land Revenue and Debt.

The following table is constructed to show the mortgage debt in terms of land revenue:

Name of District	No. of Villages Surveyed	No. of Mortgage Cases	Total Mortgage-Debt	Land Revenue of the Mortgaged Land	Debt's Multiple of Land Revenue
			Rs. a. p	Rs. a. p.	
Hassan ...	4	48	59,681-0-0	1,003-15-0	59·5
Chitaldrug ...	22	204	1,46,600-0-0	2,825-15-0	51·8
Bangalore ...	32	504	2,29,248-9-6	4,682-10-7	48·9
Kadur ...	16	105	1,65,155-0-0	4,792-4-0	34·5
Kolar ..	25	100	89,318-0-0	2,610-5-9	34·2
Tumkur ..	14	54	1,09,636-1-5	3,766-8-8	29·1
Shimoga ...	7	60	71,325-0-0	2,563-2-0	27·8
TOTAL ...	120	1,075	8,70,963-10-11	22,244-13-0	39·1

The sum total of an agriculturist's debt is not a proper measure of his indebtedness. His debt must be related to his general resources. An agriculturist's resources are best gauged by the amount of land revenue that he pays, because roughly speaking the land revenue a man pays is proportioned to the yield of his land. Thus in two contiguous taluks the *per capita* debt may be the same, yet if in one taluk it is thirty times the land revenue and in the other only ten the inference is that the former is three times as badly off as is the latter. Therefore debt in terms of land

revenue, or as it is technically called, debt's multiple of land revenue is the best measure of a landowner's indebtedness. It will enable us to compare two groups of agriculturists of two different tracts of land regarding pressure of debt.

The total mortgage debt of the villages represents 39 times their land revenue. And as these villages may be regarded as typical of the different agricultural regions the mortgage indebtedness of the State may be estimated as 39 times its land revenue. With this multiple as the standard measurement one gets an idea of the pressure of the debt. On the very conservative supposition that land revenue demand represents only one-fifth of the net income of land a multiple of 39 means that the average mortgagor's debt is equal to about 8 times his annual income. Darling's estimate of the debt's multiple for the Punjab is 15½ from which he reckons the average proprietor's debt as equal to about three times his annual revenue. Darling judged the burden of the Punjab peasant as one that "can hardly be regarded as light."[6] While Darling included in his estimate "secured" as well as "unsecured" debts, in this enquiry only mortgage debt is taken into consideration. The pressure of the mortgage debt alone, as Darling's hypothesis, is out of all proportion to the capacity to bear it.

6 *Vide* Darling's Punjab Peasant in Prosperity and Debt, p. 10.

APPENDIX

Estimate of Mortgage Debt in the 128 Villages

Number	Name of Village	Name of Taluk	Total number of mortgage cases	Total area of land owned		Total area mortgaged		Total mortgage debt in the village	Land Revenue		
				Acres	Guntas	Acres	Guntas				
	Tumkur District.							Rs.	Rs.	a.	p.
1	Holavanatalli ...	Koravagesa ...	85	945	...	888	...	33.497	1,359	2	4
2	Agohara	Do. ...	8	227	33	227	33	22,500	1,010	0	0
3	Waddagere ...	Do. ...	10	38	...	38	...	2,670	76	8	0
4	Pura	Kunigal ...	5	18	..	18	...	1,300	22	4	0
5	Byalakere ...	Chikanayakanahalli	5	136	12	18	12	3,600	94	7	6
6	Melanahalli ...	Do. ...	9	136	34	33	20	4,225	114	6	8
7	Aralikere	Do. ..	2	5	5	5	5	125	5	0	0
8	Kadenohally ...	Do. ...	12	44	31	33	10½	2,200	35	12	3
9	Kadagathur ...	Madhugiri ...	22	98	18½	97	1½	11,639	300	4	10
10	Hosahalli	Do. .	4	17	12	11	25	990	36	5	6
11	Settekora	Chikanayakanahalli	3	23	36	23	36	4,400	68	12	0
12	Thirumani ...	Pavagada ...	11	825	6	142	30	4,560	161	6	0

13	Pallavalli ...	Do. ...	7	746	26	325	17	6,730	211	2	0
14	Katikyatanahalli ...	Do. ...	3	1,087	29	178	1	11,200	271	1	7
	Hassan District										
15	Kanakatte ...	Arasikere ...	12	578	31	260	30	20,981	321	4	0
16	Kasaba Hobli ...	Do ...	12	159	14	159	14	32,200	437	3	0
17	Agrahara Belaguli ...	Chandarayapatna	15	132	20	66	3	4,975	186	0	0
18	Jamburu ...	Do. ..	9	74	...	39	26	1,525	59	8	0
	Shimoga District										
19	Padavagod ...	Sagar	6	160	9	53	34	10,800	655	0	0
20	Ambaragodlu ...	Do... ..	8	55	22	55	22	7,025	294	0	0
21	Holehonnur ...	Shimoga ...	1	150	..	60	...	2,200	157	3	0
22	Holalur	Do. ...	25	752	10	360	29	26,000	438	3	0
23	Channagiri ...	Channagiri ...	3	48	29	48	29	3,800	71	0	0
24	Dwarahalli ...	Do. ...	7	274	33	167	7	6,050	201	12	0
25	Humchadakatti ...	Tirthahalli ...	10	372	5	156	5	15,450	746	0	0
	Kolar District										
26	Garudacharlapalli ...	Gudibanda ..	8	124	36	119	4	12,675	366	12	0
27	Bullasandra ...	Do. ..	10	113	39	95	22	9,300	263	4	0
28	Kambalahalli ..	Do. ...	8	47	15	11	...	4,400	87	4	0

ESTIMATE OF MORTGAGE DEBT IN THE 128 VILLAGES—(*Continued*)

Number.	Name of Village	Name of Taluk	Total number of mortgage cases.	Total area of land owned.		Total area mortgaged.		Total mortgage Debt in the village.	Land Revenue.
				Acres.	Guntas.	Acres.	Guntas.	Rs.	Rs. a. p.
29	Kappamadagu ...	Malur (?) ...	8	72	...	67	30	5,780	146 0 0
30	Maraheru	Do. ...	2	35	..	35	...	700	80 0 0
31	Kudumane and Gubbanahalli.	Do. ...	6	56	17	56	17	1,950	Khatidar
32	Nachahalli ...	Do. ...	5	91	.	33	...	2,565	...
33	Agara	Do. ...	4	45	..	45	...	3,900	Khatidar
34	Uttanuru	Do. ..	4	21	31	11	13	300	...
35	Nakkalahalli ...	... ...	2	51	..	35	...	6,100	168 0 0
36	Kottur	... ...	1	70	..	40	...	2,500	90 0 0
37	Hosahalli	... ...	4	118	..	66	...	8,900	235 0 0
38	Bandaralahalli ...	.. ..	1	42	15	10	..	3,000	50 0 0
39	Manivala	... ...	2	26	38	8	37	2,500	65 0 0
40	Masti Hobli ..	Malur ...	5	139	12	51	22½	1,335	80 2 8
41	Kadadevahalli ...	Do. ..	7	78	16½	22	2	1,944	74 9 3

42	Kurugal	Do. ...	3	74	28	30	12	1,400	91	8	0
43	Talagunda and other Jodi villages.	Do. ...	1	563	...	563	...	20,000	563	0	0
44	Purahalli, Kallahalli and Thokalghatta.	..	5	34	3	18	19	1,250	57	14	6
45	Belamarnahalli and Singenahalli.	...	6	33	8	16	39	1,450	47	11	0
46	Gundedu	...	10	49	24	18	16	2,249	41	9	0
47	Vurigile, Hullankal, Harjenahalli, Naganala, Motnahalli, Veerapuram and Gowdahalli.	...	6	35	33½	27	25½	1,115	70	4	8
48	Dalasanar ..	...	2	7	27½	7	27½	300	18	10	8
49	Valagerehalli ...	..	1	4	38	4	38	300	11	4	0
50	Hebbata ...	...	1	5	33	5	33	300	11	0	0
51	Kallur	...	8	76	19	14	8	1,770	41	8	0
	Chitaldrug District										
52	Hiriguntanur ...	Chitaldrug ...	24	323	3	242	8	29,600	685	4	0
53	Bhimasamudra ...	Do. .	18	160	39	143	25	30,810	247	2	0
54	Bharmasagara ...	Do. ...	6	239	2	42	33	10,400	136	8	0
55	Chilangi	Do. ...	4	103	4	15	5	1,900	29	0	0

ESTIMATE OF MORTGAGE DEBT IN THE 128 VILLAGES—(*Continued*)

Number	Name of Village	Name of Taluk	Total number of mortgage cases	Total area of land owned		Total area mortgaged		Total mortgage debt in the village	Land Revenue
				Acres	Guntas	Acres	Guntas		
56	Dyomavanahalli ...	Chitaldrug ...	8	142	4	126	3	3,925	67 4 0
57	Siddapura ...	Do. ...	22	368	8	276	22	8,020	288 12 0
58	Bokikere	Hosadurga ...	5	60	...	53	18	2,295	33 4 0
59	Anivala	Do. ...	8	198	23	102	8	1,700	49 0 0
60	Baguru	Do. ...	11	106	25	66	23	3,380	91 5 0
61	Kondajji	Harihar Sub ...	23	418	12	359	13	19,030	327 4 0
62	Gunjigannur ...	Holalkere ...	7	53	3	38	32	1,600	23 8 0
63	Madhure	Hosadurga ...	3	48	16	48	16	2,400	52 0 0
64	Sringeri, Hanumanahalli, and Hounakalve.	Holalkere ...	3	23	7	23	7	990	24 0 0
65	Rangavanahalli ...	Do. ...	3	25	39	25	39	1,525	25 8 0
66	Avaragere ...	Davanagere ...	16	421	10	337	27	12,350	219 2 0
67	Anaji	Do. ..	9	113	30	86	31	4,800	149 4 0
68	Kadur	Holalkere ...	14	135	24	135	24	4,350	154 7 0

69	Bilchodu	Jagaluru ...	10	350	...	200	...	8,450	111 0 0
70	Halekal	Do ...	1	12	...	5	...	650	4 0 0
71	Marikunte ...	Do. ...	1	25	...	10	...	500	7 0 0
72	Diddige	Do. ...	1	100	...	60	...	5,000	40 0 0
73	Saraddihalli ...	Do. ...	1	30	...	18	...	1,000	15 0 0
74	Devapura ...	Hosadurga ...	3	20	...	20	...	600	16 0 0
75	Jankal	Do. ...	2	58	15	22	2	1,175	19 12 0
76	Bevakanahalli ...	Do. ...	1	6	33	3	23	1,300	2 0 0
77	Narasipura ...	Do. ...	1	45	...	45	...	250	9 0 0
	Bangalore District								
78	Itasandra	Hosakote ...	1	1,004	27	1,004	27	18,800	821 6 0
79	Nandugudi ...	Do. ...	2	12	33	4	53	500	11 15 0
80	Sivanapura ...	Do. ...	3	785	12	726	12	7,400	160 0 0
81	Hosakote ...	Do. ...	13	28	29	22	29	5,320	...
82	Bendeganahalli ...	Do. ...	39	141	5½	141	5½	21,605	189 8 9
83	Sulebelegrama ...	Do. ...	14	128	2	59	34	4,148	199 8 0
84	Bittahalli	Kanakanahalli ...	4	76	4½	34	20½	1,650	18 11 4
85	Bethingere ...	Closepet ...	2	48	...	48	...	1,000	48 8 0
86	Kumbarakarenahalli ...	Do. ...	4	27	...	27	..	1,300	23 4 0
87	Kakaramanahalli ...	Do. ..	4	37	...	37	...	1,700	39 12 5

ESTIMATE MORTGAGE DEBT IN THE 128 VILLAGES—(*Continued*)

Number	Name of Village	Name of Taluk	Total number of mortgage cases	Total area of land owned		Total area mortgaged		Total mortgage Debt in the village	Land Revenue		
				Acres	Guntas	Acres	Guntas	Rs.	Rs.	a.	p.
88	Kethriganahalli ...	Closepet ..	4	57	20	57	20	3,200	73	2	0
89	Yelahanka ...	Yelahanka ...	14	36	29	36	29	11,060	69	2	6
90	Sivanahalli ..	Do. ...	5	12	16	9	16	2,100	24	0	0
91	Kogilu	Do. ...	3	59	17½	22	26½	2,500	56	6	8
92	Amanikere ...	Do. ...	3	2	26	2	26	4,800	16	15	0
93	Chudahalli ...	Kanakanahalli ...	84	1,216	15	538	14	27,895	411	0	6
94	Karpur	Anekal ..	11	47	12	23	1	1,830	54	15	4
95	Vanakarahalli ...	Do. ...	7	29	10	16	11	1,750	46	1	9
96	Sankughatta ...	Magadi ...	20	104	21½	57	2¼	3,730	185	5	0
97	Kemppapur ...	Do. ...	10	15	19	10	38	1,400	13	9	2
98	Amani Bettekotekere	Devanahalli ...	27	10	34	10	34	6,200	67	15	4
99	Vadigerahalli ...	Do. ...	12	30	12½	19	39½	9,770	99	8	2
100	Viswanathanagarahlli...	Bangalore ...	9	10	2	10	2	3,070	4 2	14	6

101	Hebbalu	Do. ...	19	34	15½	34	15½	10,500	78	7	0
102	Nagavaragrama ...	Do. ...	33	131	10	81	8	24,185	182	2	3
103	Gangenahalli ...	Do. ...	3	18	34	18	34	4,400	34	12	0
104	Akkurugrama ...	Channapatna ...	17	73	6	65	13	5,750	132	4	9
105	Garakahalli ...	Do. ..	7	44	20	16	21	670	12	13	4
106	Kodambahalli ...	Do. ...	53	111	4	111	4	9,950	227	12	0
107	Singrajapur ...	Do. ...	18	126	16	117	1	11,775	300	12	2
108	Dodbele	Nelamangala ...	55	468	18	419	18	22,045	960	6	0
109	Heggunda ...	Do ...	1	1	28	1	28	200	1	14	0
110	Sondekoppa ...	Do. ...	2	7	36	7	36	1,150	1[illegible]	12	0
111	Begur	Do. ...	4	12	27	11	39	950	26	6	3
112	Gabbur	Do. ...	6	39	28	39	28	1,270	37	13	5
	Kadur District										
113	Nallur	Chikmaglar ...	17	116	17	72	19	3,805	224	3	0
114	Lakkavalli ...	Tarikere ...	10	73	21	56	20	2,950	146	12	0
115	Mavinakere ...	Mudigere ...	17	384	36	246	1	34,000	1,122	0	0
116	Hemmakti ...	Do. ..	3	69	12	69	12	8,800	233	12	0
117	Iddeni	Do. ...	1	18	15	18	15	600	55	0	0
118	Sange	Do. ...	3	80	22	74	12	7,050	163	0	0

ESTIMATE OF MORTGAGE DEBT IN THE 128 VILLAGES—(*Concluded*)

Number	Name of Village	Name of Taluk	Total number of mortgage cases	Total area of land owned		Total area mortgaged		Total mortgage debt in the Village	Land Revenue.		
				Acres	Guntas	Acres	Guntas		Rs.	a.	p.
119	Tiragridurugrama (?) ...	Mudigere ..	2	35	4	34	8	16,800	210	4	0
120	Talagodugrama ...	Do. ...	1	6	3	6	3	2,000	34	4	0
121	Kelagur	Do. ..	5	67	17	56	30	7,300	234	4	0
122	Marasanige ...	Do. ..	4	67	19	64	18	4,450	122	11	10
123	Horanadugrama ...	Do. ...	4	99	6	83	39	7,800	211	12	0
124	Kalakodugrama ...	Do. ..	4	100	33	63	15	4,700	174	8	0
125	Banakal	Do. ...	4	80	6	40	1	1,250	108	10	0
126	Hariharapur ...	Koppa ...	15	98	10	73	36	17,850	472	1	2
127	Nemmar	Do. ..	4	310	16	48	16	29,200	655	0	0
128	Balehonnur ...	Narasinharajapur	11	182	16	182	16	16,600	624	2	0

ECONOMICS OF THE FOREIGN TRADE OF INDIA

BY

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That foreign trade plays a very important part in the economic life of a modern nation will be admitted by all. In days gone by when transport facilities were few and the intercourse between distant countries was hazardous, international commerce played a very minor part in the economic structure of the world, the objects of exchange being mainly restricted to rare and costly commodities such as precious stones, silks, spices, ivory and similar wares. Developments in transport agencies have, however, revolutionised international trade. "Improvements in the means of communication and transportation and greater security of roads have made possible long-distance movements of any kind of goods; they have transformed the modern world into one immense market. No articles are barred now from foreign merchandising because of weight, bulk, cheapness or perishability. Steam and electricity have united the farthest regions of the earth; they have placed the wheat fields of Canada and the United States, the cattle ranges of Argentina, the sheep pastures of Australia and New Zealand alongside the flour mills and the textile factories of Great Britain, France and Italy. Heavy and bulky commodities are being moved to-day over vast stretches of land and sea with greater ease and smaller cost than light and compact articles were moved in former times."[1] One of the most striking features of modern times is,

1 S. Litman : Essentials of International Trade, pp. 5-6.

therefore, the growth of international relations of ever-increasing complexity and influence.[2] The volume of world trade has multiplied many-fold and its spheres of influence in the economic life of the trading countries have correspondingly widened.

"Industrial leadership has generally been accompanied by a large foreign trade; and partly for this reason there is a wide-spread notion that the volume of her foreign trade is a fairly good measure of a country's prosperity."[3] This view is wrong, and as the same author proceeds to say, "Mere volume of trade shows nothing . . . . . A country's foreign trade is likely to be increased by a rapid advance in those industries which are already ahead of similar industries in other countries, because such an advance increases her power of exporting at a profit. But her foreign trade is likely to be lessened or at all events its growth is likely to be checked by an advance in those industries in which she is relatively weak; because such an advance will tend to diminish her need of exports."

The mere fact that the volume of our foreign trade has grown many times is not, therefore, in itself a proof of a simultaneous growth of prosperity as has sometimes been wrongly supposed.[4] To quote another writer:

"Conclusions as to what a large *per capita* trade means for a country can be reached only after a careful investigation of all the factors involved in each particular case. Larger *per capita* exports and imports may denote that a nation is prosperous, that it enjoys all the comforts and luxuries which accrue from a parti-

2 C. F. Bastable: The Commerce of Nations, p. 2.

3 Marshall: Industry and Trade, pp. 14-15. Also see Benjamin Hoare: Preferential Trade, p. 65.

4 *Cf.* "Whenever any outsider is venturesome enough to criticise the economic effects of the policy pursued by the Indian Government during the last thirty years in its vigorous efforts to develop the resources of India, the official apologist always takes his stand on the one indisputable fact of the rapid increase of the foreign trade." A. K. Connell in the J.R.S.S., June 1885, p. 236.

cipation in an international exchange of commodities, or it may signify that the people live in an unproductive territory and are obliged to give services and to export whatever they are able to wrest from the soil in order to import bare necessities, articles of simple food and clothing, fuel and building materials, sometimes even drinking water, as in the case of Aden, in South Arabia."[5]

Though, as a whole, foreign trade has risen much in importance as can be observed from the growth of the volume of world trade, the degree of importance that it plays in the economic life of a people will, therefore, depend on the following factors:—

" (a) The size of the country and the density of its population;

(b) The geographic location of the country;

(c) The volume and character of the country's natural resources;

(d) The degree of the economic development of the country and the standard of living of its people."[6]

Foreign trade will play a far more important part in the case of small countries with dense population and scanty agricultural resources but industrially well developed, than in that of vast and thinly-populated countries with ample agricultural resources for industrial progress. Among the former class may be mentioned European countries like the United Kingdom and Germany, while the U.S.A. may be said to belong to the latter group. Besides these, the extreme poverty of a country also restricts the progress of her foreign trade. In this class may be included the backward countries of Africa and Asia.

India may be said to belong partly to the second and partly to the third group. On the one hand, she is a vast country possessing almost all the vital necessities of life which are required for a

5 S. Litman : *Ibid.*, p. 42.

6 *Ibid.*, p. 10.

modern people. She is not in need of importing food-stuffs like the Northern countries of Europe; she also possesses mineral and agricultural resources which, if developed, will be able to satisfy her demand for most of the manufactured goods. On the other hand, she has got a dense population which is poverty-stricken. The standard of life is very low and we find that the *per capita* amount of trade is consequently very small.

Truè, foreign trade plays a much less important part in the economic life of the Indian people than it does in that of the commercially advanced nations of Europe. Nevertheless, it must be admitted that foreign trade has gradually been playing a more and more important part in the economics of our country since the establishment of British rule. This can be seen from the rapid growth of our foreign trade which has, indeed, been the most characteristic feature of all the economic changes India has undergone in modern times. Whatever might have been the nature and extent of our foreign trade in the past, it can be unhesitatingly said that it played quite a negligible part in the economic life of the people till the middle of the last century. The same is not true to-day. Since the beginning of British rule, along with the growth of transport facilities and world commerce the foreign trade of India also has grown greatly in volume. A large variety of articles of common use has replaced the luxurious goods of ancient trade. This growing trade and its nature have profoundly affected our agriculture and industry. They have also raised India to a position of eminence in the world market. Trade relations have gradually been established with almost all the important countries of the world and this growth of trade has come to play an equally important part in the economic life of those countries as well. Now, the question arises: how far has this growth of foreign trade been beneficial to India and added to the prosperity of her people?

The modern theory of International Trade is based on one fundamental idea that it is "advantageous and benefiting both

sides," a proposition which we do not contradict. But we do not agree with Bastable that "a consideration of what is our proportion of gain is after all more a question of scientific curiosity than of practical importance."[7] If, for example, by developing her industries, India can multiply the gains from her foreign trade, there is no reason why she should remain content with only a slice which may come to her by exporting only raw materials. The nature of the commodities exchanged must, therefore, be carefully examined before arriving at a conclusion as to what the real advantages of a country's participation in foreign trade are.[8] Again, it is also necessary to see as to who constitute the two sides. It is not always true that they should invariably represent different interests. Owing to political subordination or some other cause, it may be possible that the so-called exchange of goods between two countries may really mean a transaction between the people of the same nationality, some at home and some abroad. For example, the exports of tea from a plantation owned and managed by Britishers to England and the import of machinery in exchange for use in the same plantation would mean that the mutual gains arising out of the transaction really go to the nationals of the same country. The investment of foreign capital in a country and the exploitation of her agriculture and industry by foreign entrepreneurs, which give rise to the consequent inter-

7 C. F. Bastable : *Ibid.*, pp. 20-21.

8 *Cf.* "It is not a matter of indifference whether the articles concerned in imports and exports are destined for final consumption or for use in further production, i.e., whether they are consumer's or producer's goods. Thus the national economy of a country is certainly more favourably affected when one hundred million Marks are used to purchase raw cotton which will be increased in value many-fold in succeeding transactions by the industry, than if the hundred millions had been expended for coffee to be consumed at the same value. So when machinery, electric apparatus, railway material, etc., are purchased, which find enduring application in the productive process of the country, a different judgment must be passed of such transaction than that which is applicable to the importation of fashionable articles of women's apparel which is merely consumed and do not survive a single season." Joseph and Grunzel : Economic Protectionism, p. 64.

national exchange of goods, do not add to the prosperity of her people by trade as such, though their ultimate effects on agriculture and industry may be beneficial. In order to evaluate the benefits of foreign trade, the invisible items of trade which indicate a country's gain or loss on this account must be carefully considered. The nature of these invisible items of trade which results in an excess of exports over imports or *vice versa* is, therefore, the true index to the prosperity or otherwise of a country.

Two remarkable features that are observable in the trend of our foreign trade since the middle of the last century are the preponderance of raw materials in export and of manufactured goods in import, and a steadily rising excess of exports over imports.[9] The significance of these two points must be closely studied before we are in a position to ascertain the advantages accruing to India by her foreign trade. It is not possible to make a statistical analysis so as to arrive at a particular amount of value; but an examination of the commodities of trade and their influence on agriculture and industry as well as of the cause and extent of the excess of exports over imports will indicate in general terms the effects of foreign trade on the economic well-being of the people.

The development of foreign trade has greatly affected our agriculture. The demand for a large number of Indian agricultural products has, to a great extent, stimulated their cultivation. Thus the rise in the output of such agricultural crops as

9 The first feature is a matter of common knowledge and does not require any further proof from me. As regards the second, the following figures bring out the tendency :—

Period	Net excess of exports over imports	Annual average (value in lakhs of Rs.)
1860-61 to 1893-94	48,873	1437
1894-95 to 1913-14	51,130	2521
1914-15 to 1926-27	36,419	2801

See also, Jathar and Beri: Indian Economics, Vol. II, p. 296, the table quoted from my unpublished thesis.

oil seeds, cotton, jute and tea, has been very largely due to a flourishing export trade. This has not, however, been an unmixed good. The production of commercial crops for export purposes has often retarded the growth of food grains which has not kept pace with the rise in population and the progress of exports.[10] Nevertheless, it must be admitted that the development of the export trade has very materially added to the agricultural resources of the Indian people.

It has also been beneficial to the progress of such industries as jute and shellac. On the other hand, the import of metals, machinery and instruments has helped the establishment of modern industries in India, such as the cotton, jute and steel industries. But the growth of imports in most other articles has been other than beneficial to Indian industries. The rising imports of sugar have seriously affected the home industry. The imports of cotton and woollen manufactures, though they have not actually caused a decline of the home industries, have certainly retarded their progress. To put briefly, the growth of our export trade has, on the whole, been beneficial to our agriculture; but the effects of the growing import trade have been mostly injurious to the welfare of our industries.

The growth of our foreign trade has not, thus, been an unmixed good. What the net addition to the prosperity of the people as a result of the greater participation in international commerce has been is impossible to be expressed in actual figures by deducting its adverse effects on industry from its beneficial effects on agriculture, though from the rise in the price of agri-

10 The population of British India rose from 287·3 millions in 1891 to 318·9 millions in 1921, thus showing an increase of 11 per cent. The total area under food crops rose from 187 million acres in 1892-93 to 208 million acres in 1923-24, showing also an increase of just 11 per cent. During the same period, the exports rose from 20·56 crores of rupees to 50·87 crores, showing an increase of 147 per cent, while the prices rose by only 74 per cent. See, also, K. L. Datta : Prices in India, Vol. I, Chapter IV.

cultural products, and the increasing imports of a number of manufactured goods of general use it may be conceded that there has been some addition to the income of the people. But what is more important to note is that foreigners have very materially gained by participating in Indian trade. Whereas the growth of our foreign trade has been partially injurious to the welfare of this country, its effects on the well-being of other countries have been entirely beneficial.

The exports which have added to the agricultural resources of India have, at the same time, led to the industrial development and general economic welfare of the importing countries, as these consist mainly of raw materials and food grains. Thus the existence and prosperity of the Dundee Jute-manufacturing industry depend solely on the imports of the Indian raw material. The exports of tea and wheat from India satisfy the vital needs of the Britishers; those of hides and skins have added to the prosperity of the leather-manufacturing industry in the United Kingdom, the U.S.A. and Germany; those of seeds have helped the growth of the oil-mill industry in France and elsewhere; those of raw cotton have led to the progress of the cotton industry in Japan and elsewhere; and so on.

As regards the effects of the imports which consist mostly of manufactured goods, the industries of foreign countries have prospered in direct detriment to those of India. Thus, the prosperity of the Lancashire cotton industry depends greatly on a flourishing trade with India. Java owes the prosperous condition of her sugar industry to a large trade with India. So also the rising imports of cotton and silk manufactures from Japan have led to the expansion of those industries in that country. But such progress in other countries has had injurious effects on similar industries in India. Of course, the imports of such articles as machinery, metals, etc., for the manufacture of which there did not exist a corresponding Indian industry meant mutual advantage.

On the whole, it may be said that the share of India in the gains arising out of foreign trade must have been small; but the other countries have very greatly profited by trading with India. This has been, as will be evident from the above, due to the undesirable nature of our trade, namely, the exports of raw materials in return for the import of manufactured goods, which have been detrimental to the interests of our industries.

Even supposing that India has been able to profit to some extent by her foreign trade, a deduction must be made from it for the share taken away by outsiders. Most of the profits[11] arising out of the extension of tea and coffee cultivation ultimately go to British capitalists who are the owners of the majority of the plantations. A part of the profits of the jute industry is also taken away by Britishers who control the mills. Besides these, the gains from an actual participation in the transactions of trade also go to foreigners who own many commercial houses all over the country. So also the profits from shipping, banking, insurance, etc., which are incidental on the international exchange of goods mostly go to foreigners. It will thus be seen that a large portion of even the apparent gain to India is really enjoyed by outsiders.

We have already remarked about the growing excess of exports over imports. From the figures given in footnote 9 it will be seen that during the 67 years, 1860-61 to 1926-27, the net excess of exports amounted to 13,64 crores of rupees. In other words, merchandise worth 20.36 crores of rupees has, on the average, been annually exported from India in each of these 67 years for which no returns were received in kind. Of this amount the portion which goes to meet the Home Charges excluding interests on loans is of a political character, being a sort of tribute paid to the sovereign country by a subject nation. Account must also be taken of the new foreign investments made in India, the temporary effect of

11 We refer to the commercial profits here, though the remark is true of industrial profits as well.

which is a reduction of the foreign liabilities of India. If we, therefore, suppose that " A " is the net excess of merchandise exports, " B " the investment of foreign capital in India and " C " the political Home Charges, then we can say that the extra gains of foreign trade, besides the natural gains arising out of the mere exchange of goods, which go to foreigners are equal to A + B − C.

In this connection, it may be argued that the interest charges paid on the investments of foreign capital do not mean a permanent loss to the country. For, a poor country like India must depend on foreign capital to develop her industries and, in the long run, the profits derived from the growth of industries more than pay for the interest charges. If the foreign capital be had at a reasonable rate of fixed interest and is judiciously employed in developing industries, the effects of foreign investment, being far from harmful, are positively beneficial. But when foreign investment takes the form of companies (incorporated outside India) which are owned and managed by foreigners (that has mostly been the case with the private investment of foreign capital as distinguished from the loans made by the Government of India for the purposes of irrigation and railways), it means only an exploitation of the resources of a country to enrich the foreigners without adequate benefit to the people of the land.[12] In any case, however, the exports which are made to meet the liabilities on foreign investments mean that a share of the profits arising out of the growth of industry and agriculture to the same extent is taken away by foreigners.

To summarise, the development of our foreign trade has, on

12 Such forms of exploitation are most objectionable in the case of mineral industries; for, while in the case of an agricultural industry like tea or a manufacturing industry like jute, there is a possibility of the people of the land enjoying the full profits of the industries by ultimately taking them over from foreigners, the exploitation of mines means a permanent loss of mineral resources which cannot be got back and which must sooner or later be altogether exhausted.

the whole, been beneficial to the growth of our agriculture but detrimental to that of industry. It has been entirely beneficial to the countries trading with India. A portion of the gains arising out of the growth of agriculture and some of the industries is appropriated by non-Indians, as some of the agricultural and manufacturing industries are owned and managed by foreigners. A further portion goes to meet the foreign liabilities of India for trade purposes such as charges for shipping, banking, insurance, etc.

When allowance is made for all these factors, it may even be doubted if the growth of our foreign trade has at all added to the prosperity of the country which could not have been attained without it.

Without going into the details of the theory of international trade, we may say that the growth of foreign trade is not an end in itself; it is only a means to an end which is the growth of national welfare and an addition to the economic comforts already enjoyed by a people. Under the present political structure of the world on the basis of independent and isolated states which necessitates, so far as possible, the self-sufficiency and autonomy of the individual nationalities, the play of the law of comparative costs must be so restricted as to ensure a diversity in production and the maintenance of as many of the "key" industries as possible. The idealistic condition visualised by the classical theorists of a community of nations, each concentrating on the production of a commodity most suited to it and then a mutual free exchange of goods so produced, thus carrying the division of labour to its furthest end, ignores the political organisation of the world as it is and its consequent result of the clash of interests between one country and another. What may be good for humanity at large may not be to the best interests of a particular nation in question. This conflict of interests between world economy and national economy, in which the latter must prevail, makes the feasibility of free trade utopian. At the same time, it is ridiculous to think

of the other extreme of having a country fully self-sufficient in every branch of agriculture and industry and of thus shutting out all exchange of goods beyond its frontiers. A happy state of circumstances will lie in fully preserving the interests of a country and at the same time in adding to the welfare of humanity at large, and not the sacrifice of national interests for an intangible common weal.

Viewed in this light, it might be argued that a policy of developing the industries of the countries by judiciously restricting the imports of manufactured goods and the exports of raw materials would have added more to the prosperity of the countries than the growth of trade on the lines it has taken place, has done. Countries with a scanty population and vast agricultural resources may find it for a time profitable to export their raw produce and import manufactured goods in return, in order to satisfy their immediate needs and to help the development of their industry and agriculture. Want of men is to be compensated for by imported machinery and its increased use. But even these countries will find it more profitable after a time to retain the raw materials inside the country, turn them into manufactured goods and stop as far as possible the imports of foreign manufactures. Such has been the case with the U.S.A., Canada and Australia. The increase of foreign trade with these countries, though a considerable portion of their exports may consist of raw materials, will mean increased prosperity as it means the disposing of the surplus products which could not with advantage be consumed within the country and would therefore be wasted.[13]

Again, countries like England, Germany or Japan, with their deficient agricultural resources and insufficient food supplies may

13 *Cf.* " With countries like Canada and Australia, foreign trade is the source of economic life, and prosperity or adversity varies almost in direct ratio to the surplus and price of their products available for export, which is the best means they possess of obtaining the resources necessary for the development of their territories." J. W. Root : The Trade Relations of the British Empire, p. 119.

find foreign trade an absolute necessity on the growth of which the prosperity and well-being of these countries would depend to a very great extent. The imports of food-grains supply their vital needs while the maintenance and growth of their industries have to depend on imported raw materials. Again, a flourishing export trade in those manufactures is essential to the prosperity of their industry. Foreign trade is, therefore, with such countries, a source of economic prosperity.

The case is, however, different with India. Her case is not similar to Australia or Canada, nor can it be compared with that of England or Germany. India is a densely-populated country, the agricultural resources of which can, with better advantage be utilised within the country than exported outside. Like England, India does not require imports of food-grains to feed her people, nor does she require imports of raw materials to develop her industries. Hence while with some countries foreign trade may be an absolute necessity on the maintenance and growth of which their economic prosperity will depend, such is not the case with India. She possesses enough raw materials to develop her industries; she has not to depend on foreign countries for the supply of any of her vital needs which can be met with from the resources of the country itself; nor is she in want of man-power which would, as in Australia or Canada, necessitate the export of raw produce to develop her economic resources. It, therefore, appears to us to be a valid contention that the one-sided growth of agriculture to the detriment of the progress of industry, as has been caused by the developments in our foreign trade, has not been to the best interests of the country and means a sacrifice of national economy for the promotion of world economy. The absence of a diversity of industries has forced the population to rely mostly on agriculture which is largely responsible for the extreme poverty of the people. As Moreland observed in 1917, " It is a matter of common knowledge that the present income of the country, even if it were equitably distributed, would not suffice to provide the

population with even the indispensable elements of a reasonable life. This fundamental factor of poverty is unquestionably correlated with undue preponderance of agriculture as a means of livelihood.[14]

We, therefore, arrive at the conclusion that though the growth of our foreign trade has certainly added to the prosperity of India, a policy of developing the industries of the country by restricting the free progress of foreign trade would have been much more beneficial. We can, therefore, unhesitatingly assert here that the so-called free trade policy of the Government of India which led to the unhampered growth of our foreign trade to the disadvantage of the industrial progress of India was a fatal blunder and positively injurious to national well-being. The true interests of the country were sacrificed to the pursuit of an unsound economic theory. A right policy would be a system of protection which will guarantee the growth of the various industries of the country and at the same time aim at obtaining the maximum amount of gain by participation in international exchange of goods. It was indeed most unfortunate that an injurious policy was thus pursued for over half a century which led to the drifting of our trade to its present plight. If a right policy of safeguarding the interests of Indian industries were adopted earlier and adequate encouragement were forthcoming from the Government in developing new manufacturing industries, some of our industries would not have succumbed to the competition of imported goods nor would have our raw materials been exported in increasing quantities to the detriment of the growth of new industries in India. The task has been made difficult by the negligence of more than fifty years. But it is no good crying over spilt milk; nor will anything come out of perorating over conditions which prevailed in our country a century back. Things must be taken as they are; nevertheless,

14 Quarterly Review, April 1917, quoted by Profs. P. A. Wadia and G. N. Joshi at p. 327 of their "Wealth of India." Also compare C. F. Fuchs: The Trade Policy of Great Britain and Her Colonies Since 1860, p. 284.

we have this consolation that though the task is difficult, its ultimate success is guaranteed by the existence of an ample home-supply of raw materials, an internal market of large dimensions and other requirements for industrial progress.[15]

From 1916 onwards, remarkable changes have, however, taken place in the commercial and industrial policy of the Government; and we must express our satisfaction that they have at least admitted their fault and discarded their former policy in favour of one of discriminating protection. True, much remains to be done as yet; but a beginning has been made in the right direction and we may expect better things in future.

We are optimistic. Though at the moment industrial depression prevails in India and elsewhere, it will, we hope, soon pass away. We are already in sight of brighter days, as it were. Two of the foremost industries of India, the cotton and steel industries, which were acutely suffering from the post-war slump following the preceding boom years, have already been granted some measure of relief by having been brought under the scope of the changed tariff policy. In the case of some other industries also, though protection has not been explicitly granted, the very high revenue duties that are at present levied have brightened their prospects to some extent. The sugar and the silk industries may be cited as examples. In short, we may expect the present political crisis to be followed by a period of gradual readjustment between industry and trade, thereby promoting the economic welfare of the country as a whole.

[15] *Cf.* "India has an abundant supply of raw materials, a plentiful supply of labour, adequate capital and a large home market. All these requisites for industrial growth and development are thus present much more so than in many countries which have, without such advantages, attained a commanding position in the industrial world." Fiscal Commission Report (Minute of Dissent, p. 176).

LAND RENT IN RELATION TO THE PRICING PROCESS

BY

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The rent and price theory still remains in a rather unsatisfactory condition. Ever since Ricardo's conclusion that rent does not enter into cost of production was challenged by Jevons economists have not been unanimous in their opinion as to the relation between rent and price. Although it is Ricardo's theory that has gained currency, yet economists like Davenport and Gustav Cassel have argued against it and have advocated Jevons' theory. More recently Mr. H. Gordon Hayes in an article on "Land Rent and Prices of Commodities"[1] has discarded Ricardo's doctrine altogether, and has argued like Jevons that rent does not differ from wages so far as its relation with cost and prices is concerned. He introduces in addition to the extensive and intensive margins a third margin which he calls the "Margin of Transference,"[2] and observes that in the determination of the price of commodities the margin of transference is of prime importance inasmuch as it is through this margin that shifting of lands takes place, and this acts upon the supply of commodities. "The Margin of Transference" he says, "is the Hamlet in the play of price-making forces." Thus he concludes that because of the existence of alternative uses of lands rent enters into the price of commodities. Mr. H. D. Buchanan has, however, in an article

1 Published in the *American Economic Review*, June, 1927.

2 The term was used by Henderson in his *Supply and Demand*, p. 94.

recently published in the *Economica*[3] pointed out that the analysis of Mr. Hayes involves a misinterpretation of Ricardo's theory. In this article Mr. Buchanan has attempted to reconcile the two opposite views on the question, and has observed that " the theories of Ricardo and Jevons are not antagonistic but complementary " —that " two different problems with separate hypotheses have been confused in the treatment of Rent and Price." The present paper is intended to throw further light on the problem.

II

Ricardo's theory is that price is determined at the margin where no rent is paid, so that rent cannot be a component part of that cost which goes to indicate price.[4] On the other hand it is price which determines rent, for rent is a differential surplus enjoyed by the intra-marginal lands over the marginal land. Hence his oft-quoted expression—" Corn is not high because rent is high, but rent is high because corn is high."[5]

John Stuart Mill in his chapter on *Rent* closely follows Ricardo, and maintains that " rent does not really form any part of the expenses of production."[6] But in his chapter on the *Theory of Value* he observes that " when land capable of yielding rent in agriculture is applied to some other purpose, the rent which it would have thus yielded is an element in cost of production of the commodity which it is employed to produce."[7]

Now, this hypothesis is the starting point of Jevons who remarks that " Mill edges in as an exceptional case that which

3 Historical Approach to the Rent and Price Theory, *Economica*, June, 1929.

4 " . . . that corn which is produced by the greatest quantity of labour is the regulator of the price of corn; and rent does not and cannot enter in the least degree as a component part of its price." (*Principles of Political Economy and Taxation*, 3rd Edition, p. 67.)

5 *Ibid.*, p. 63.

6 *Principles of Political Economy*, Vol. I, p. 518.

7 *Ibid.*, p. 577.

proves to be the rule."[8] Mill allows, as a matter of fact, that when land which yields rent as pasture is ploughed up, the rent it would yield as a pasture land must be debited against the expenses of production of the crop which it is now employed to produce. Jevons further develops it and points out that the same principle applies between two modes of agricultural employment. When land capable of yielding rent in the cultivation of one crop is applied to the cultivation of another crop the rent which it is capable of yielding in the former case is an element in the cost of production of the crop to which it is now shifted. He then draws a parallelism between the theory of rent and the theory of wages. So far as a single use is concerned, he observes, even wages are the effect and not the cause of value, because there is no such thing as an absolute cost of labour. It is only when labour is taken to be shifting from one employment to the other, that we regard it as forming an element in the cost of production. "When," he says, "labour is turned from one employment to another the wages it would otherwise have yielded must be debited to the expenses of the new product."[9] Thus he concludes that rent enters into cost and price as much as wages do.

III

Ricardo's analysis holds good so long as we do not take into account the alternative uses of land. If lands are not capable of shifting for better returns, payment or non-payment of rent does not affect the supply of agricultural produce, nor, therefore, its price.[10] But when there is shifting of lands for competing uses,

8 *Theory of Political Economy*, p. liii. (Preface to the 2nd Edition).

9 *The Theory of Political Economy*, p. lv (Preface to the 2nd Edition).

10 The price of agricultural produce is governed by the general conditions of demand and supply; and these conditions are not affected by rent. A remission of rent, for example, would not have any influence on the demand and supply of raw produce. On the one hand, it would merely mean a transference of some wealth from the land-owners to the cultivators, so that the aggregate demand

rent does enter into cost of production and price. If lands are capable of being applied to different crops, the supply of any crop expands and contracts not only through the extensive and intensive margins, but also through a third margin, namely, the "Margin of Transference," or, as Mr. Buchanan calls it, the "Product Changing Margin." This margin is not a point but "an irregular line upon or near to which there will be many pieces of land, differing greatly in the rents which they fetch."[11] It thus consists of those lands which are on the margin of doubt as to whether they should continue to produce the crop for which they are employed or should turn to other crops. The price of a particular crop for which these lands are employed is therefore influenced by the rent which they are capable of yielding if they turn to other alternative occupations. Thus rent affects the supply of any crop through its effect on the supply of lands employed for the production of that crop, and consequently it is a factor determining the price of that crop.

Moreover, a piece of land which is cultivable for two crops, say, rice and wheat, may be marginal for rice cultivation and intra-marginal for wheat. In that case, if the demand for rice is such that the rice-growers have to draw that land away from wheat, they must pay a rent which it would yield as a wheat land. Here the land on the margin of rice-cultivation yields rent; and this rent, forming as it does a part of the marginal cost of production of rice, is a factor determining the price of rice. If, for example, a particular piece of land can produce both rice and wheat at Rs. 5 and Rs. 4 per md. respectively, and if the marginal cost of production of rice is Rs. $4\frac{1}{2}$ per md. and that of wheat is Rs. 5 per md., then this land will be cultivated for wheat and will yield rent.

would remain the same. On the other hand, it would not mean any relief to the marginal producer, so that the supply price would remain unaffected. *Cf.* Marshall : *Principles of Economics* : (7th Edition), p. 27. Also, Pierson : *Principles of Economics* : Vol. I, pp. 95-96.

11 Henderson : *Supply and Demand*, p. 96.

If, then, the demand for rice rises so much that this land is to be drawn away to rice-cultivation, it becomes *marginal* with respect *to rice, its cost* being higher than that of the land which had been at the margin before this transference. But still the cultivator who applies this land to rice-growing has got to pay a rent at least equal to that which it used to yield in wheat. This rent forms a part of the marginal cost of production of rice and thus enters into the price of rice. Similarly, the same land may be used for different purposes, viz., cultivation, building construction and pasture, and that land which is marginal for agricultural purposes may be intra-marginal for building construction or for pasture. In such circumstances the land on the margin of cultivation yields rent which enters into the price of agricultural produce. As a matter of fact, Ricardo's conception of rent as a differential surplus rests on the existence of a no-rent margin; but in view of the existence of alternative uses even the marginal land for a particular crop may command rent, and this rent forms a part of the price of that crop.[12]

IV

Thus when there are competing uses of land, or in other words, when there is a possibility of lands being shifted from one use to another, the causal relation runs from rent to price. But when there is no such possibility it runs from price to rent. Now, this shifting of lands from use to use is possible only in the short period, i.e., a period in which a perfect adjustment of the application of lands to different uses has not taken place. In such a period there is a constant shifting of lands from use to use. This

12 This rent is not the same as the rent which is paid by the marginal land on account of intensive cultivation. The rent which the marginal land pays for intensive cultivation does not enter into price. There is a differential element in it. In such a case the price is determined on the basis of the productivity of the marginal dose, and the rent paid by the marginal land is the differential surplus of the intra-marginal doses over the marginal dose.

shifting results in changes in the supply of commodities whose price is thereby affected. It is here, as we have seen, that the margin of transference is effective in the determination of price. It may be noted here that in such a period when we allow for a shifting of lands between different uses, the supply of land for a particular crop cannot be taken to be fixed, so that the peculiar characteristic which distinguishes land from capital is absent, and therefore rent enters into price as much as interest does. Land, in such a case, is practically one form of capital, and its income is analogous to interest.

In the long period, however, the distribution of lands between different uses is so adjusted that no profitable transference from one use to another is possible, all lands being used for the different purposes in such a way that the margin of profitableness is reached for every use. At this margin the net returns of all lands are equal. "Each crop" as Marshall says, "strives against others for the possession of the land, and if any one crop shows signs of being more remunerative than before relatively to others, the cultivators will devote more of their land and resources to it," so that "in equilibrium, oats and hops and every other crop will yield the same net return to that outlay of capital and labour, which the cultivator is only just induced to apply."[13] This principle holds good not only with regard to the distribution of lands between different crops, but also with regard to the distribution of lands between different purposes, viz., cultivation, building construction and pasture. In equilibrium conditions, when a perfect adjustment of the application of lands to different uses is assumed, price is independent of rent; that is to say, a remission of rent does not cause any fall in the price of corn nor does a tax on rent cause any rise in the price of corn; for, the adjustment is such that a remission of rent or a tax on rent does not create any scope for a profitable transference of land from one use to another. If, owing

[13] Marshall: *Principles of Economics*, 7th Edition, p. 435.

to any circumstances, their equilibrium is disturbed, it is again restored through the operation of the Principle of Substitution.

We find, therefore, that the whole problem of the relation of rent to price turns on the question of the period of time to which we refer. In the short period, owing to the existence of alternative uses of land, and in view of the elasticity in the supply of land for individual uses, rent enters into price. In the long period, on the other hand, owing to the inelasticity in the supply of land, rent does not enter into price.

Thus on the basis of the element of time the two opposite theories of Ricardo and Jevons can be harmonized. These two economists looked at the problem of rent and price from two different standpoints and hence they arrived at opposite conclusions, as they did also with regard to the theory of value. Ricardo, while holding that value is determined by cost of production, had in view a long-period tendency. Jevons, on the other hand, had a short period in view when he maintained that value is determined by final utility. Similarly, Ricardo referred to the long-period tendency when he observed that rent does not enter into price; and Jevons referred to the short period when he said that rent enters into price. So they as also the other economists who have followed them and have advocated one or the other of these views have taken a one-sided view of things. In fact, each of these theories is incomplete by itself and requires to be supplemented by the other in order that a complete theory of rent and price may be established. Mr. Buchanan also holds a similar opinion, namely, that the two theories are complementary, and that they together constitute a complete theory of rent and price. But he explains the existence of these opposite theories by the fact that those who hold that rent does not form a part of the expenses of production refer to a 'single use' of land, while those who hold the contrary view refer to 'competing uses' of land. That is why he says that Mr. Gordon Hayes misinterprets Ricardo's theory; for Ricardo, as he shows, dealt with raw produce as a whole, and regarded land

as having one use only. According to Mr. Buchanan, therefore, the two theories present ' two different problems ' with ' separate hypotheses.' As a matter of fact, however, they do not present two different problems, but are rather two aspects of the same problem.

THE ECONOMIC DEVELOPMENT OF INDIA*

BY

P. J. THOMAS,

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Works on Economic History usually deal with past developments, but the book before us not merely recounts the recent economic history of India, but goes elaborately into the principal economic problems of the country and critically analyses their social as well as economic background. In view of its comprehensiveness of design, its impartiality of views and the genuine sympathy gleaming through its pages, this work deserves more than a passing notice in the pages of the *Indian Journal of Economics.*

The author of this treatise is well-fitted to perform the task she has set for herself. Mrs. Anstey (Miss Powell as she then was) had a bright career at the London School of Economics and Political Science, and after graduation, she proceeded to India and stayed seven years out here with her husband, Mr. Percy Anstey who was not merely the Principal of the Sydenham College of Commerce but also one of the pioneers in Indian economic research. On his untimely death, she returned to London and was given a place on the staff of her own *alma mater;* and in that capacity she has been in sympathetic contact with streams of Indian students pursuing higher economic studies in English universities. Her teaching work at the School did not prevent Mrs. Anstey from delving deep into the heaps of

* "The Economic Development of India," by V. Anstey, D.Sc., Longmans, 1929, pp. 581. Price 25/-.

documents on Indian economic history preserved in the India Office and other libraries in London and the present work is evidently the result of exacting toil in those libraries for several years. No wonder that it is one of the best documented that has appeared on Indian Economics.

The book covers 581 pages—but it is not a bit too long—and is divided into 17 chapters. In the first six, an account is given of the fundamental, physical and social factors affecting economic development, i.e., natural resources, population, social organisation, health conditions and transport facilities. In the next two, agricultural development, agricultural policy and the co-operative movement are discussed. Industrial policy comes next and that is followed by a detailed account of the development of India's large-scale industries, industrial legislation, foreign trade and commercial policy, Indian financial system, and banking and currency. In the two concluding chapters, an attempt is made to estimate the effects on the prosperity of the people of all the economic developments described, and to envisage the future prospects of India in the economic sphere.

The main thesis of the work is that India is in a state of arrested development, owing chiefly to the evils of her unhealthy social system, which keeps certain classes depressed and certain occupations (the most important from the economic point of view) unworthy of being pursued by people of the 'upper' castes; which leads to the continuing pressure of population on the means of subsistence, and which checks all economic enterprise by the inertia born of hidebound custom. In spite of the existence of a few well-organised industries, a unique system of irrigation and efficient transportation services, the outlook of India, according to the author, is still essentially mediaeval, as indicated by the supremacy of custom, the striking predominance of religion in every aspect of life, lack of the ideal of progress, the persistence of a 'static' social ideal and the absence of scientific spirit. "India must not be judged," says the author, "by its great

ports and other industrial areas. These latter are the scene of striking anachronisms, symptomatic of the direct impingement of the modern on the mediaeval. In Bombay, for instance, the motor car—driven possibly by a Parsi lady—dodges in and out between foot-passengers and bullock-carts; the latest product of the universities jostles with the fakir; and broad and beautiful streets look out on the narrow alleys of the Eastern bazaar." Thus, heavily handicapped by adverse circumstances, the transitional stage between the mediaeval and the modern has been unduly prolonged in India; and while in recent times Great Britain, followed by many other Western countries, forged ahead in industry and commerce, India, which previously had been a manufacturing country, has remained stationary or has even jibbed backwards. Such is the main thesis of the book, and this has been elaborately worked out in the course of its 17 well-arranged chapters.

That Indian economic development has been arrested none will question. Not only has it been arrested but there has been a decline in certain lines. Till nearly the close of the eighteenth century, no country in Europe was the equal of India in industrial arts; nay, Europe was dependent upon India for all elegant cotton clothing, be it calico, muslin or chintz. But within 50 years, Britain forged ahead, thanks to her mechanical inventions; developed a new cotton industry whose products could easily outsell Indian cloth by their cheapness; and even India became increasingly dependent upon the new English industry for calico and muslin. Thus, nothing short of a revolution happened in the comparative economic position of different parts of the world. This revolution caused much suffering in this country. India had a large population engaged in spinning and weaving; and the export trade of the East India Company had encouraged these arts and crafts. The cheapening of cotton cloth in England by the mechanical processes, and the facilities created by the railway and the steamship to transport them at little expenses over land and sea, killed the

export trade of India in cotton goods and deprived the Indian artisan of his hereditary occupation. An increasing pressure on land, a growing dependence on agriculture, the loss of balance between agriculture and manufactures—these were the natural results of this revolution. However, if Indian manufactures were not wanted, India could at least produce the raw materials needed for manufacture and with Lancashire producing not an ounce of raw cotton, there arose a growing demand for that commodity, and in train of it for other similar raw materials. India, hard hit by the decay of her manufactures, took to the production of such raw materials; and the East India Company exerted every nerve to export year by year as large a cargo as possible of those raw materials to feed the hungry machine industries and the more hungry industrial population of their mother country. Not only raw cotton (which eventually found formidable competitors elsewhere) and indigo, but also jute, coffee, tea, oilseeds and wheat came to be exported from India in ever-growing quantities. Thus the nature of Indian export trade changed radically; while previously she had exported manufactured goods, her exports now consist mostly of raw materials whilst her imports are principally manufactured goods.

Now this is as might have been expected. The early start of Britain gave her the advantage and deprived others of the markets they had previously enjoyed. Not only India but France, which was till then equal (if not superior) to Britain in industrial skill, was left behind, and it took many decades for her to adopt the new methods and modernize her manufactures. Germany and U.S.A. had to wait longer before they could adjust themselves to the needs of machine industry. In the case of India, the delay has been much greater; a start was made early—the first cotton mill was started in 1853—but the progress has been too slow and halting. Thus the main thesis of Mrs. Anstey is quite tenable; but a doubt arises when we come to the causes.

No doubt the rigidity of the caste system and its social strati-

fication were formidable difficulties in the way of a rapid industrialization, and it is well to emphasise it. Nevertheless, it may be remembered that other factors, equally important, have been in operation. Britain and France, with a small and well-knit population were in a position to industrialize themselves without much difficulty; but India is a sub-continent, and its teeming millions could not adapt themselves so rapidly to the requirements of an industrial civilization. For one thing, capital was lacking in India. In Britain, centuries of secure government had enabled people to accumulate and invest capital, whilst in India insecurity of person and property was the normal state of things since the halcyon days of the Moghuls, and any large accumulation was not possible in such circumstances.

Blame is frequently laid on Government for the slowness of industrial development in India. It must be admitted that this criticism is grossly overstated. At any rate, the story of the weavers' thumbs, for example, is too unsupported to be made a serious charge against the East India Company's Government. To my mind, the sins of Government, whether under the Company or the Crown, are rather those of omission than of commission. Until quite recent times, the British Government in India cared only for performing the protective functions; even now it has not freed itself from its Moghul traditions. A rigid policy of *laissez faire* characterized all the dealings of Government from the beginning, and that was modified only where revenue considerations or gross suffering to the people called for any modification. As Mrs. Anstey rightly points out: "Up to the end of the nineteenth century, the effects of British rule on the prosperity of the people were undoubtedly disappointing" (p. 5). Early in the present century that policy was modified, first in regard to agriculture and next in regard to industries ; and the result is the quickening of the pace of economic development during the last 30 years. Even then, many obstacles had to be overcome, and vested interests both in India and in England had to be placated for taking each step in

the promotion of Indian industry and enterprise. The history of the Indian tariff in recent times bears eloquent testimony to this. It is quite clear that in the present state of keen international rivalries, no country could develop, even retain, its industrial position without the active help of the State. But the promotion of industries is an expensive game in these days, and a foreign government will find it hard to raise the revenue and put forth the energy needed for an active industrial policy. Hence the conclusion of the author that "until fully responsible government is conceded it is to be expected, on the one hand, that Government policy will be subject to drastic criticism, and, on the other, that too much reliance will tend to be placed on it" (p. 478).

Mrs. Anstey has certainly done well to emphasise the retarding influence of the Indian social system, but it is not certain that she has estimated rightly the part played by religion. Says she, on page 46: "Religion excludes the economic motive and replaces it by the ideas of custom and status." This statement is not quite true even of Europe, for even the orthodox religion of the Middle Ages did not prevent the development of guilds, and much progress in geographical exploration and commercial enterprise was made under the active patronage of religion. The influence of Puritanism on economic development in modern times is also in point. In India, some of the classes that are most orthodox in their observance of religion happen to be also economically the most forward. The Marwaris, the Guzeratis, the Nattukottai Chettis, the Lingayaths and a host of other successful trading classes are certainly among the most orthodox followers of Hinduism; but their religion has in no way retarded their economic progress. Of some of them the French traveller, Tavernier, said in the seventeenth century that, beside them, "all the Jews who occupy themselves with money in the empire of the Grand Seignior . . . . would be scarcely apprentices."[1] The Jews of Europe are among the most punctilious in the observance of their religion; what has been, and what is their place now, in the industry and finance of Europe?

Whilst it does not seem that religion was essentially a drag upon economic development, it must be admitted that some of the social institutions which have really retarded economic development have a religious sanction behind them. Whilst we do not desire that India should become less religious even if it might make it more wealthy, we must agree that an effort should be made to examine the validity of some of those socio-religious customs and habits which make people neither religious nor wealthy. But even here, the blame cannot be laid entirely on the people. Except the suppression of Sati nearly a hundred years ago, Government did precious little for social reform in this country till the other day. A strong national government may easily suppress such evils, but a foreign government cannot be expected to push through any vigorous policy in that direction. And in the case of a country like India, only strong governmental action will be able to effect the changes most needed for economic progress.

The descriptive account of Indian industries contained in the book is perhaps the most easily accessible; the author has brought together a wealth of detail, which would keep students of Indian Economics heavily indebted to her. But it is not mere detail that Mrs. Anstey gives us; all her details are brought under a searching analysis, which makes the book really valuable. The concluding chapter is perhaps the most suggestive. All may not agree with her conclusions; but few will disagree that the whole subject has been discussed with great breadth of outlook and a high sense of fairness; and this makes the work before us easily the best existing treatise on Indian Economic History.

NOTES

HYDERABAD ECONOMIC ENQUIRY DEPARTMENT AND SOME OF ITS WORK

Mr. S. K. Iyangar, Special Officer, Economic Investigations, Hyderabad (Deccan), sends us for publication the following table which embodies the results of investigations in some villages of the state conducted by the Hyderabad Economic Enquiry Department to the end of 1338 Fasli, that is, October 6, 1929. We gladly publish the table and will equally gladly publish any similar material that is sent to us.

We would like to congratulate the State of Hyderabad on the institution of the Economic Enquiry Department which is the first of its kind in the native states of India. The idea of instituting the department seems to have originated with Mr. B. A. Collins, C.I.E., I.C.S., Director General and Secretary to the Hyderabad Government, Departments of Agriculture, Co-operation, Industries, etc., etc., and it was he who laid down the items of enquiry when Mr. Iyangar was first asked by him to undertake an enquiry in two districts. The items were as follows:—

1. The sizes of agricultural holdings.
2. To what extent the holders cultivate their land and on what terms and conditions they sublet them to others.
3. The extent to which the holders, and especially those who themselves cultivate their holdings have been dispossessed, within a definite period, say the last 20 years and what are the causes of this dispossession,

4. The indebtedness of the holders and the amount of land which is actually mortgaged and to what class of money-lenders.

5. The rates paid in the shape of land revenue and the rates and conditions to which land is subject.

6. The manner in which the holders obtain their seed and dispose of their produce.

M. Ed.

Serial number	Name of village	Taluqa	No. of resident families	Area of occupied agricultural land			No. of actual occupants of agricultural land	No. of cultivators holding agricultural land on tenancy terms	Amount of land mortgage debt	Amount of other debt
				D	W	G				
									O. S. Rs.	O. S. Rs.
				Mahboobnagar District						
1	Gopalpur ...	Mahboobnagar	38	1029-8	58-30	8-30	51	19	500	3,045
2	Gollapalli ..	Makthal ...	35	1294-20	78-15	3-17	54	23	500	4,680
3	Uyyalwada ...	Nagar Karnul	79	1689-32	111-10	0-39	66	36	399	2,830
4	Kurumida ..	Kalwakurthy	90	2474-8	152-15	4-24	59	25	...	8,785
				Nizamabad District						
5	Kotarmur ...	Armur ...	64	718-10	77-0	1-14	32	26	...	2,465
6	Nasarullabad	Bodhan ...	35	107-37	83-25	0-6	48	16	...	3,880
7	Lachmapur ...	Yellareddy ...	31	27-20	37-26	0-11	43	8	...	3,570
8	Patharajampet	Kamareddy ...	18	174-16	105-1	0-25	91	12	1,000	4,545
				Nanded District						
9	Sangvi Buzurg	Nanded ...	54	1474-3	...	24-25	66	21	4,600	6,675
10	Hassapur ...	Do. ...	63	1105-10	...	...	47	17	920	2,935
11	Palsa ...	Hadgaon ...	124	2798-22	...	21-29	80	71	9,300	18,538

Serial number	Name of village	Taluqa	No. of resident families	Area of occupied agricultural land			No. of actual occupants of agricultural land	No. of cultivators holding agricultural land on tenancy terms	Amount of land mortgage debt	Amount of other debt
				D	W	G				
12	Walki Khurd	Do. ..	77	1182-1	...	10-28	51	8	2,500	650
13	Sonari ...	Mudhol ..	93	2483-39	..	..	83	19	1,450	11,605
14	Degaon ...	Do. ..	175	1714-27	76-11	7-20	171	124	4,347	21,566
15	Hangarga ...	Biloli	57	1014-14	...	..	62	22	655	2,807
16	Kerur ..	Do .	58	1639-21	2-4	...	71	40	9,020	9,281
17	Shailgaon ...	Diglur .	252	3207-2	0-38	16-8	184	99	13,635	11,272
18	Karna ...	Do ...	82	1470-38	.	..	61	21	9,350	6,567
19	Kalali Rui ..	Khandhar ...	129	3193-18	..	...	140	20	5,470	4,301
20	Kirwad ..	Do. ...	69	1066-17	...	72-27	60	12	5,625	6,165
				Warangal District						
21	Kondur ...	Warangal ..	280	3080-31	486-11	45-17	384	37	7,758	45,548
22	Ghanapur ...	Mulug	170	162-14	1389-7	..	56	not ascertainable.	100	5,197
23	Katapur .	Do. ..	139	61-21	83-3	107-23	51	9	50	11,693
		Total ..	2212	33170-29	2741-34	226-23	2111	695	77,179	198,800

S. K. IYANGAR

LOW PRICES AND INADEQUATE SUPPLY OF GOLD.

The discussion of the widespread economic depression which has prevailed during the last few years, with more or less intensity, in almost all countries on the globe, with its accompaniment, the devastating unemployment which has carried misery into millions of homes, has thrown into foreground a question of paramount interest to economists. While the depression is being attributed to various causes, working separately or in combination, such as the overproduction of goods, the underconsumption of wealth, the rationalization of industry, the high tariff walls which obstruct the free flow of trade from one part of the world to another and the inadequate supply of money and credit to meet the needs of commerce, and while it is true that each one of the above causes is playing its own part in maintaining and accentuating the economic depression, it would be hardly correct to explain it by pointing one's finger to one special factor as solely responsible for the malady from which the world is suffering. Reuter's cablegram of 24th September from New York is significant in this connection. It runs as follows:—" The heads of the Bank of England, the Bank of France, and the Reichsbank are expected to meet shortly with a view to discussing measures for the alleviation of the world-wide business depression." If this meant only that the world's leading Central Banks intend to do what they can to contribute to the recovery of the sick economic world, there would be nothing extraordinary in the event of their concerting certain common measures of action But it is just likely, and more than likely, that this move has something to do with the idea that has been prominently put forward recently by certain economic and business experts, namely that the predominant, almost the sole, cause of the depression lies in the inadequate supply of gold needed for the support of credit which is indispensable for the normal and smooth running of the world's economic machine.

Memorandum of Sir Henry Strakosch.

One of the ablest and most interesting statements of the position of the latter is made by Sir Henry Strakosch, who contributed a special memorandum on the subject " Gold and the Price Level " to the *London Economist* in last July. He has taken as his starting point the Index Numbers of wholesale commodity prices in England to show how they have fallen from 153·0 at the end of 1925 to 115·8 in May 1930, and how the purchasing power of gold has, therefore, risen from 65·4 to 86·4 in this period. He then examines, totally to reject as false, the plea of overproduction and pits against it, the " theory of the markets " well known to economists. When there is an abundance of production of all kinds on all hands, every one participates in the prosperity, as the supply and the demand counterbalance each other, and the price-level is stable. But if the means by which the wealth that is produced, is circulated and distributed, that is the means of payment, fall short of the needs of the people, then certainly the prices of commodities are bound to fall. Sir Henry seeks to prove his thesis by showing that the gold required to effect the exchange of goods during the past five years has not been forthcoming in sufficient quantity. As almost all the countries of the world have re-established the Gold Standard, the demand for monetary gold has increased, and consequently there is a struggle for the possession of the yellow metal. The difficulty, however, does not lie in the gross world supply of gold. It is adequate enough. But its uneven distribution among and by the Central Banks of the world has created the hitch. Sir Henry says:—" Supposing the production of the world increases at a compound rate of 3 per cent per annum, and supposing the monetary gold reserves of the gold standard world were to increase at a similar rate, then the general level of prices will only remain stable if every member of the great Gold Standard partnership does in fact build upon the gold

reserves they have and may be receiving, a structure of currency and credit which, regard being had to the state of development of the credit system in each country, is appropriate. To the extent to which they fail to do so, they are depriving the gold standard world of the additional currency and credit it needs to exchange its greater production, with the effect of increase in the value of gold, that is, of depressing the general level of commodity prices."

U.S.A. and France—the Culprits.

The recent depression of prices, Sir Henry proceeds to point out, is thus the effect of the mal-distribution of the world's gold reserves and their partial sterilization. His indictment is mainly directed against the policy of the accumulation and sterilization of gold adopted by the U.S.A., the Argentine Republic and France, these countries having heaped up gold reserves far in excess of their reasonable needs. Much of the gold that flows into their reserves is not used by these countries as a basis for the expansion of currency and credit and, therefore, does not perform its monetary functions. It is pointed out that whereas the amount of Great Britain's gold reserves per head of the population was £3·3, that of U.S.A., was, on an average, about £6·7 and that of France £6·1 in 1928 and 8·0 in 1929. The Reserves of the offending nations are far in excess of their requirements. World's production expanding at a rate of 3 per cent per annum, the supply of gold required to meet the increase during the years 1924—29 was £389 millions. But actually £194 millions worth of gold was available. £332 millions would indeed have been forthcoming, but £138 millions out of this, was sterilized by the U.S.A., Argentine and France, which only increased their reserves by that amount without these being allowed to be used as the basis of credit. The world has, therefore, had to suffer from a deficiency of gold and the result has been a sharp fall in prices and more acute business depression!

Sir Josiah stamp's " I had told you so ".

The above contention is wholeheartedly supported by Sir Josiah Stamp in an article contributed to the *Nation and Athenaeum* of 30th August. His prophetic vision had clearly despied what was coming, long ago, and now he observes:—" I have not ceased since, in and out of season, to protest that until the world had learnt the international rules of the game, rapid changes in a gold price level would be a bigger menace to Great Britain than to any other country, only to be counteracted successfully by an elasticity of industrial and financial factors which seemed politically impossible." According to him, the danger has now become more sinister in its possibilities for evil, and nations are helplessly drifting, with aggravating factors such as the continual demonetization of silver and still more economic disasters staring them in the face.

Wanted more evidence and better proof.

On the face of it, the theory advanced by the above two advocates of the international control of the supply of gold, and the arguments urged to support it, appear to be generally sound. But an impartial judge would demand more evidence and better proof to support the thesis before it is accepted. This is apart from the defence which the countries accused by them have to put up against the indictment, before an international tribunal. A few objections that go to show the weakness of the case, suggest themselves at once. How were the U.S.A. and France to use their gold reserves to create additional credit as Sir Henry and Sir Josiah wanted them to, if presumably industry and commerce and the banks did not want more accommodation? As a writer in the well-informed German paper, the *Frankfurter Zeitung*, points out, British index numbers of prices alone cannot be taken as a reli-

able basis and that British policy of deflation necessitated by the adoption of the gold standard in 1925, has to be simultaneously taken into account. Because British monetary deflation was an effective cause of the economic crisis in Great Britain, that may not be true also of the present international position. It has still to be demonstrated whether the relation between gold reserves and the volume of credit has been the same in other countries as in England. In other words, has credit been restricted in other countries for a lack of sufficient supplies of gold? Have the continental banks complained and have businessmen complained that there was insufficient credit, because enough gold was not available for their operations? No one, besides, receives gold for nothing. It has to be paid for. U.S.A. and France could not have withheld credit from their own businessmen if the latter wanted it and could not have distributed their gold reserve over the world in an arbitrary manner. Other objections may also be advanced. But this is enough for the moment.

V. G. K.

NATIONAL INCOMES AND A MEASURE OF "OVER-POPULATION"

It is a very important table of statistics of National incomes (compiled mostly from official estimates) that H. E. Fisk publishes in the *American Economic Review*, March 1930, and on account of its serviceability we make no apologies for reproducing it here (see p. 192). The table will naturally appeal differently to readers with diverse interests but an important conception has been introduced in expressing incomes, like density, in terms of a square mile of area. Indeed it is an index of capacity, or productivity of land to yield to those who may put it to advantage. As a basis of comparison spurious elements are introduced by reference to such natural or

regional advantages as sea board, mines, etc., and also to industrial or other organisation such as concentration of industries, foreign investment and so on; but such as they are, the figures in columns 5 and 6, expressing income per square mile, and income *per capita* reveal by very simple statistical analysis which Mr. Fisk does not undertake a striking tale in regard to the relative extent of overpopulation in the several countries. When arranged in diminishing order, these numbers take the ranks assigned to them in the respective columns 7 and 8 of the table. It will be realised that these ranks in either category would have been identical had there been the same state of saturation in the population pressure in the several countries, and the extent to which any two corresponding numbers differ, I propose to designate, a measure of overcrowding, as positive, and a measure of underpopulation, or the capacity to further increase, as negative. Of the 29 countries, 11 belong to the latter category and 18 manifest some state or another of overpopulation, and the amounts of displacement in rank by individual countries may be collected together in groups as in the following table.

Rank displaced by	Negative, *i e.*, "under-populated"	Positive, *i.e.*, showing signs of overpopulation
1, 2 or 3 points (*i.e.*, very slightly)	Spain; Egypt; U. S.S R. (Russia)	Denmark, Switzerland, France. and U. K.
4, 5 or 6 points (*i.e.*, slightly)	Union of South Africa	Netherlands, Yugoslavia Latavia, Lithuania, Greece, Germany, Czechoslovakia. Austria
7, 8 or 9 points (*i.e*, moderately)	Finland, United States of America	Hungary
10 places and more, (*i.e.*, markedly)	Chile, Sweden, Norway, Australia, Canada	Italy, Poland, Belgium, India and Japan

* * * * * *

In this connection the survey of W. S. Thompson in "Danger Spots in World Population" (New York: Knopf. 1929) of the growths of the population particularly in Japan, China, India, Italy and Great Britain provides a very valuable review. The author correlates these with comprehensive data in these countries with their natural resources and potential opportunities, and shows how inadequate the resources and capacities are in the case of Japan, China, India and Italy, and how disquieting their effects will be in the future when in these respective countries the present desire for a rising standard of living further develops. In fact Dr. Thompson believes that Japan, China, India and Italy have already reached an impasse and cannot hope to climb to a higher level of comfort unless an outlet be found for excess population. One among the remedies suggested by this author is the re-distribution of population, or rather the voluntary sacrificing or alienation of certain territories, the principal among them being precisely those countries—Chile, Sweden, Norway, Australia and Canada—which are included in the left-hand corner of the last group in the above table as being now markedly "underpeopled."

*   *   *   *   *   *

National Incomes

Country (col. 1)	Year (col. 2)	Income in National Currencies (col. 3)		Income in Dollars (col. 4)	Dollars per sq. mile (col. 5)	Dollars *per capita* (col. 6)	Rank in Diminishing order of Numbers in col. 5 col 6 (Col. 6)	(Col. 7)
1. United States ...	1928	$	89,419	89,419	29,540	749	10	1
2. Austria ...	1927	Sch.	6,678	940	29,375	140	11	16
3. Belgium ...	1928	Frs.	7,000	1,351	112,580	171	3	14
4. British Empire: U. K.[2]	1924	£	4,164	18,390	195,638	409	1	4
5. British Dominions: Australia.	1924	£	636	2,955	993	477	28	3
6. British Dominions: Canada.	1927	$	5,500	5,500	1,505	579	27	2
7. British Dominions: India.	1924	R. Cr.	2,402	9,250	8,348	37	19	29
8 British Dominions: U. S. Africa.	1923	£	186	851	1,800	112	26	20
9. Chile	1928	Pesos	5,488	665	2,300	166	25	15
10. Czechoslovakia ...	1925	Kr.	83,000	2,460	45,555	172	7	13
11. Denmark ...	1927	Kr.	3,500	935	58,446	267	6	7
12. Egypt ...	1928	E. £	293	1,427	3,705	102	23	22

13. Finland ...	1926	Mks.	17,000	428	3,242	118	24	17
14. France .	1928	Frs.	210,000	8,228	36,629	201	9	10
15. Germany ...	1925	Mks.	50,000	11,900	65,745	190	5	11
16. Greece	1927	Dr.	46,500	605	12,346	98	17	23
17. Hungary ..	1927	Pgö.	5,500	962	26,722	113	12	19
18. Italy ...	1927	Lire	89,758	4,724	39.016	115	8	18
19. Japan ..	1925	Yen	13,382	5,500	21,154	66	13	26
20. Latavia .	1925	Lat	911	176	7,040	92	20	24
21. Lithuania ...	1924	Lit	1,267	126	6,000	54	21	27
22. Netherlands ...	1925	Fl	5,241	2,107	162,076	284	2	6
23. Norway ...	1927	Kr.	2,700	703	5,644	251	22	9
24. Poland .	1928	Zl	20,000	2,244	14.960	74	15	25
25. Spain ...	1920	Ptas.	25,825	4.116	2[illegible],107	187	14	12
26. Sweden ...	1924	Kr.	6.000	1.591	9.195	265	16	8
27. Switzerland ...	1924	Frs.	8,550	1,558	97.337	389	4	5
28. U. S. S. R (Russia)	1925	R.	13,850	7,100	860	48	29	28
29. Yugoslavia ...	1924	Din.	80,102	1.114	14,577	109	16	21

[1] Calculated at the average rate of exchange of respective years.

[2] Irish Free State not included.

[3] "This estimate appears to be somewhat high, but is the only available calculation."

The Annual Report of the Controller of Currency is always an interesting document and the latest for the year 1928-29 is an exceedingly valuable summary of the financial events of that year by the Government spokesman. Among others, the following four conclusions deserve more than passing consideration:

(1) " a steadiness in the value of Indian Currency as compared with other monetary units ";

(2) " the growth of the investment habit among the peoples ";

(3) " the growing popularity of notes in preference to coin ";

and fourthly, " the drop in the price of Government securities."

In regard to the first of these it will be remembered that this has been achieved by, or accompanied by, a large amount of deflation during 1926-27, and also by the sale of Treasury Bills to the tune of 22 crores to both of which Indian commercial opinion has been very strenuously opposed. Opinion is gaining ground every day—and much more emphatically at the present time—that Government utilize these agencies to buttress their exchange policy. So far as Home Charges were alone concerned India Bills had to be issued to the extent of £6 million sterling to supplement the ordinary remittances, and this alone reflects poor credit on the exchange policy of Government. The balance of accounts, after deduction is made for Council Bills and remittances of sterling is a meagre figure amounting only to 7 crores as against 34 crores and 41 crores in the two years preceding this period.

The growth in the investment habit is diagnosed by the stationary character of the gold imports for private consumption. If this phenomenon persists for a long time, it would be a matter for congratulation. With regard to silver, although the Government sold an amount of silver to take advantage of the peak prices in May 1928, they kept to the policy of moderate sales so as not

to dislocate the market; still as a result of large silver exports, the net imports for the year have fallen to Rs. 9·77 crores as compared with 13·83 crores and 19·86 crores in the two years preceding.

The replacement of coin by notes is steadily progressing, the average active circulation of notes increasing by over 9 crores over the preceding year. Moreover, in the case of cotton and jute, a much larger use is now made of the facilities provided by Government for remitting money through treasuries and currency offices.

In regard to the price of Government securities there is a noticeable drop, owing mainly to the issue by Government itself of the rupee loans at much higher rates, and by the orgy of treasury bills which apparently is never going to diminish. The closing price of the year under review for the 3½ per cent paper was Rs. 71-5 as against Rs. 75-6 at the end of the preceding year. At the present moment of writing things have become even worse, with the quotation as low as Rs. 62-8, and a financial correspondent connecting it with the exchange ratio, states that there can be no game worth playing at all in this unless "all the pieces are put back in their old places."

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The statistics at present given are not calculated to throw real light on the administration of currency from the popular point of view, and the following suggestions made recently by the Indian Finance Department deserve consideration and adoption—(1) the marketable securities and *ad hoc* securities should be shown separately instead of being clubbed together; (2) the outflow, or inflow, of rupees from, or into, circulation should be shown separately from the transfer of silver rupees from currency to the mint for melting and ultimate sale; and (3) the statistics of absorption of currency notes should be given week by week instead of month by month.

The public are anxious to know whether the contraction of currency is effected by the sale of ordinary securities, or by the

sale of *ad hoc* securities, the latter being more objectionable. In like manner if silver from the currency reserves is sold there ought to be no secrecy about it, for in the long run Government will find that publicity pays better and inspires greater confidence than attempts to mystify the public by vague and inaccurate statistics.

* * * * * *

The British Bank rate has, in quick transition from September 1929, fallen continuously from 6½ per cent to 3½ per cent and is likely to come down even to 2½ per cent. With this similar changes will occur in other centres of the world. Mr. L. J. Reid of the *London Economist* recalls the analogy of the events of November 1907—May 1908 and shows how closely similar are the causes, durations and extent of this decline. Then too the rate came down from 7 to 3½ per cent and even to 2½ per cent, and it is hoped that the recovery now as before will not be slow in coming. "In 1907-08 the world was passing through the aftermath of the 1907 collapse in New York. The first impetus to cheaper money last autumn was again a collapse of Wall Street which removed the pull towards New York of call money to finance Stock Market speculation." The successive reductions now were occasioned by previous falls in the open market discount rates due to a declining supply of bills. This again arose in part from the world-wide decline in commodity prices, that is, from the world reduction in the volume of bills. In 1907-08 too, a similar phenomenon occurred, the *Statist* index number of prices of materials, which stood at 88 7 in the second quarter of 1907, having fallen to 73 1 by the third quarter of 1908. These suggestions are worth while more complete investigation, particularly in regard also to India where the monetary barometer is even more sensitive to variations.

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The German economist Herr Frank Andras in the course of an article in the *Berliner Tageblatt*, extracts from which appeared in a local paper, draws attention to the decrease in trade amongst

the four great industrial countries, Great Britain, Germany, France and the United States, and the struggle they are making amongst themselves for capturing foreign markets. The following statistics exhibiting the foreign trade—imports and exports separately—of each of these countries with the aggregate of the three other countries for the pre-war year 1913 and the average of the triennium 1927—29, indicate the direction and extent of the changes, the figures in each case representing the percentage each aggregate bears to the total trade of the fourth country in the respective years.

	England		Germany		France		U. S. A.	
	1913	1927–29	1913	1927–29	1913	1927–29	1913	1927–29
Imports ...	37·6	27·6	29·4	26·1	36·5	32·5	33·2	17·5
Exports ...	18·8	15·6	29·1	23·2	39·8	33·4	44·2	30 4

These statistics may be obscured both by the large increase in absolute quantities and the differing values of money measures in terms of which these ratios have been calculated, as well as, in the case of figures relating to Germany and France, by the inclusion of the trade of Alsace-Lorraine now under foreign trade, but there is no doubt that the change is definitely and entirely in one direction, though in different intensities, in the case of all these countries. It is clear that with all pious professions, pacts and proposals, the liquidation of the political consequences of the war has not been earnest, and the four Great Powers have not become better commercial customers of each other. In other words, these countries have become, after the war, relatively less important to each other in the post-war era of increased competition. As a result all of them are devoting increased attention to getting a greater share of trade in the countries outside themselves. This is most pronounced in the case of Germany and the United States. The interests of the U.S., which under the double pressure resulting from the "saturation" of the home market, and the

reduced possibility offered for American finished articles by the great European States, are being necessarily concentrated more and more upon markets hitherto held as monopoly once by Britain. Great Britain hopes to prevent this development assuming quickly its logical end in the existing circumstances, on the one hand, by seeing that Russia is restored to a capitalist absorbing land with undeveloped industries, and on the other hand, by extending possibilities of colonial exploitation in Asia and Africa. "These changes in the foreign trade of the four great capitalist lands, therefore, furnishes a background" writes Professor Andras "for their changed and changing attitude towards each other."

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The inaugural lecture delivered to the London School of Economics on January 30, 1930, by Professor Lionel Robbins on his appointment as Professor of Economics reiterates the high ideals that have come to be associated with that School. He is not bothered about making the subject fit "for a gentleman to study in his moments of relaxation," and thinks it doing a disservice to the Science to limit it to too much popularisation. He is concerned with the carrying forward of the actual business of discovery with whatever tools may be appropriate without endlessly debating the scope of theoretical speculation or the limitations of the statistical method and so on, so long as anything leads to human betterment and contentment. While the unlimited emphasis on the statistical method alone he calls 'walking on one leg,' he is deeply impressed with the great power and utility of that method, and thinks "there is reason to suppose that in the future the alliance between the economic theorist and the statistician will be even closer than it has been in the past. The *rapprochement* comes from both the quarters. Clearly, quantitative exactitude is the object of all scientific inquiry, and it is only by continually testing our theories by reference to the facts of the situation that we discover how far they are appropriate." His main aim, however, is to emphasise the extreme importance of

the theoretical background and to remedy if possible the main deficiencies of which we are becoming conscious. He enumerates various problems demanding study classifying them into three main groups, gaps in the existing body of theory, defects in the logical structure and oversimplicity in the assumptions of existing theory.

Theory of international trade—a great part of this theory, particularly that part which relates to tariffs and capital exports, has been worked on the assumption of flexibility of wage rates; but substitution of rigid wage rates (which has been the rule rather than the exception in the post-war period) makes necessary certain modifications such as those suggested by Pigou.

Theory of wages—a great deal of it depends upon a labour market peculiar to a rapidly-growing population but has to be modified, as shown by Mr. Robbins himself, on the advent or approaching signs of a stationary population.

Theory of costs—the construction of particular equilibrium cost curves has never been satisfactorily completed, always "one thing at a time" being only analysed, and the theoretical prescience of Professor Sraffa and the school of Lausanne is now held up for pursuit.

Modern credit economy—the theory of money and the theory of saving should no longer be held in watertight compartments, but the "Pathbreaking work" of Mr. D. H. Robertson must suggest some powerful instruments of policy. And so on in other cases. To ignore these, or to assume that only a little ingenuity of a rather trifling order is necessary to get over these, is, says Prof. Robbins, "the practice, to-day, of only the writers of cram text-books or examiners in certain examinations."

* * * * * *

This elaboration of a scheme of studies in economics brings us to the circumstance of an increasing attention now being devoted to economic theory. There are at least two topics on which interesting literature is accumulating in the journals from America—costs of land, capital and opportunity, and again "rent under increasing returns." The "doctrine of high wages" to give it the name that Professor J. H. Henderson gave in his first communication to the *International Labour Review* Vol. XX, No. 6, December 1929—has likewise evoked considerable thinking. The relation of monetary policy to the movement of wages, with special reference to Great Britain, is the subject-matter of a brilliant, though controversial communication to the August 1930 (Vol. XXII, No. 2) number of this *Review* by J. R. Bellerby and K. S. Isles; and Dr. Robertson himself read at the Royal Statistical Society on April 15, 1930, his further researches on International Comparisons of Real Wages—which after all is, as pointed out by his colleague J. W. Nixon, a problem of method. This paper is now printed in the Journal of that Society, Vol. XCIII, Part III, pp. 398—423.

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B. K. M.

LABOUR.

The Report of the administration of the Factories Act for 1928 shows that the number of factories subject to the Act rose to 7,863 as against 7,517 in 1927. The average daily number in 1928 was 1,520,315 as against 1,533,382 in 1927.

It is satisfactory to note that the tendency to employ children in the machinery portion of factories in the tea industry in Assam is on the decline. They are being employed more in the withering sheds and sorting rooms.

It is also reported that the irregular employment of women in Sind has been considerably checked by continued surprise visits carried out by the Factory inspectors. In Burma the position is still bad, women are still illegally employed on night work.

The number of children employees also fell from 57,562 in 1927 to 50,911 in 1928. This is satisfactory as far as it goes. We cannot however expect for greater improvement in this direction until two conditions are further improved. The first is the establishment of an adequate minimum wage which will modify, if not very greatly remove, the need of poorly paid workmen to send their children to seek early employment in order to supplement the earnings of the chief bread-winner of the family. The other is the imperative need of extending free primary education followed by a year or two's course of some vocational training. Unless these two factors are strengthened we shall not be able to reduce the employment of children much further in our factories in India.

We note with regret the rise in the number of accidents from 15,711 in 1927 to 16,348 in 1928. Happily however the increase is mostly in minor accidents. The Government of India think that the fines imposed by magistrates for breaches of the Act are inadequate. We must add with regret that Trade Union organisations ordinarily pay slight attention to the question of prevention of accidents. If they were vigilant on this point and also sought to educate their members to be more careful we would note a distinct improvement under this head in future. A great proportion of these accidents are preventable.

We regret that we have not yet read anywhere of the measures adopted by the Trade Unions concerned, or by the All-India Trade Union Federation or by the Trade Union Congress itself to face the tragic situation created by the mass unemployment of workers in the cotton and the jute industries of the country. The situation is unprecedented. The causes that have brought about this state

of affairs is not merely political, as is readily assumed by some. Together with the political factor, which unquestionably has considerable bearing on the problem, there are other internal and world causes that have brought about this unhappy situation in these industries. We know that Trade Unions with their poor finances, and inadequate organisation cannot possibly control the entire situation. But unlike the employers, they have not indicated the possible lines of action that may be adopted either by the employers, or themselves or the Government. We expected that a clear lead would have been given by Labour leaders during this time of severe distress. We recognise, however, that some of the more influential Labour leaders were out of the country during the past few months, and that the others were either in jail or have been pre-occupied by politics. Nevertheless, we record our disappointment at the lack of initiative displayed by Labour organisations to meet the present situation. We are of course not unmindful of the efforts of the so-called All-India Labour Conference which was to have met at Lahore. But we are doubtful whether such an *ad hoc* body could successfully handle the situation.

The Central Advisory Council for Railways did some useful work when it met in July, 1930 at Simla. Amongst the number of things it did, it approved of the Rules of Recruitment and Training framed by the Railway Board. These rules embodied (i) that systematic methods of training be in force, (ii) that there be as much uniformity in the methods in force as would be compatible with local conditions and requirements and (iii) that racial discrimination be eliminated.

The Council approved of the plan of appointing an officer of the Education Department on special duty to frame alternative estimates of the cost of giving assistance to Railway employees for the education of their children (1) upto the high standard and (2) upto the middle standard on the principle of confining

assistance to cases where Railway employees have to send their children away from home in order that they may be suitably educated. The limit of pay upto which assistance may be given will also be investigated.

The B. N. W. Railway men's Association, under the presidentship of Rai Sahib Madhusudan Das, held a meeting on the 12th of August, 1930 at Gorakhpur and invited the Agent to consider some of the outstanding grievances under which the Indian employees suffer and the changes they demand. The Resolutions passed demanded (a) that monthly and not daily wages be paid to workshopmen, (b) that provident fund benefits be extended to those who received daily wages, (c) that hours of work of the traffic staff be reduced to 8 hours instead of 12 hours a day and, (d) that leave and holiday rules be improved and (e) that there should be an increase in their remuneration.

Except for the matter of the extension of the provident fund benefit to workers on daily wages, we feel that the demand put forward by the workers are reasonable. The B. N. W. R. is a flourishing concern and we are of opinion that it is in a position to meet these demands of the employees. Careful and sympathetic examination of these problems is required, otherwise trouble is bound to accumulate for the future.

Mr. A. M. Hayman, a member of the Railway Board, met the representative of the All-India Railwaymen's Federation on September 1, 1930, at the Railway Board offices in Simla, to discuss the proposed rules and instructions regarding the recent amendment to the Indian Railways Act dealing with the question of hours and rest periods of railway servants. Mr. V. V. Giri headed the Railwaymen's representatives. The nature of the discussions has not been revealed to the public. We may however have every confidence in Mr. Giri and his colleagues and be sure that they will secure the most beneficial conditions possible for the

workers. The traffic staff has unduly long hours and has arduous duties to perform. The safety of the travelling public rests in their hands. It is to be hoped that the new rules will afford much relief to the traffic staff.

We hope the long standing grievances of the employees of the Eastern Bengal Railway have been impartially investigated and righted. High degree of efficiency cannot be achieved and maintained in any industrial concern when the hands employed are suffering under genuine grievances. Ready co-operation of the workers is an essential factor and it can only be secured by sympathetic and just treatment.

The same seems to be the case of the G.I.P. Railway workers. Their grievances too are allowed to await solution in spite of the assurances given to the men by Dewan Chamanlal.

Mr. Giri has been successful with the Agent of the M. & S.M. Railway in the important and difficult matter of the revision of rates of wages in regard to the employees of that railway in so far as he has secured the Agent's consent to receive suggestions from the Union. Such mutual consultation cannot but lead to good. It must help the authorities and at the same time it will educate the men to appreciate the difficulties of their employers.

In the course of his Presidential address at the Cordite Factory Labour Conference at Wellington, in the Nilgiris, in August 1930, Dr. P. Varadarajulu expressed the opinion that the British Government in India would be rendering great service to the country by (1) making provision against sickness, accidents, infirmity, old age and death; (2) introducing total prohibition of intoxicating drugs and drinks in places where industrial labourers congregate; (3) modernising the slum quarters by acquiring building sites and constructing homes; (4) disseminating among the workers scientific knowledge of agriculture and industries and

principles of health; (5) enfranchising the Labour Unions to elect their own representatives to the Legislatures and the Local Bodies. All these are highly desirable objectives. We may anticipate that the Whitley Commission will not fail to recommend most, if not all, of these very urgent demands. But the limiting factor we fear will be the financial position of the Government.

We deplore the fact that Mr. S. C. Joshi's motion at the Fourteenth Sessions of the International Labour Conference in favour of holding a special conference to consider Asiatic Labour problems was not carried. While we agree with M. Albert Thomas, Director of the International Labour Office, Geneva, that there is great danger of regionalism developing to the deteriment of international solidarity, yet the fact remains that some problems, especially those of labour, must necessarily be dealt regionally as far as Asia or Africa are concerned. Industrial development is just setting in in these continents and social and racial conditions are so peculiar to these areas that labour legislation will not make effective head-way except it be treated regionally. As long as regional legislation does not run contrary to the spirit of international legislation, we see every advantage in having a regional conference of Asiatic and African countries.

Most of the Delegates who represented India at the Fourteenth Sessions of the Indian Labour Conference which opened on the 10th June, 1930, complained of the great handicap they suffered under because of the delay on the part of the Indian Government in announcing the personnel of the delegation. This left the delegates very little time to study up the various subjects that were scheduled for discussion. It is to be earnestly hoped that in future the Government will make its announcements at the earliest possible opportunity so as to leave the delegates sufficient time to study up the subjects under consideration.

The International Trade Union Congress, holding its sessions this year at Stockholm, have decided to press for the adoption of a 44-hour week.

The Headquarters of this organisation have now been removed from Stockholm to Berlin.

The next sessions will be held at Brussels.

The English Trades Union Congress held its annual sessions at Nottingham in September, 1930. 700 delegates attended. The subjects discussed were Unemployment, Social Services and Hours and Wages. It also discussed the Report of the Economic Committee on Empire trade. It appears that the Congress have not made a fetish of the Free Trade principle. They are willing to modify the application of free trade as long as it helps to re-act favourably on employment.

It also appears that Congress are weakening in their belief in the old time slogan of "Socialism in our time." The task of the Labour Government was compared to that of building a road without stopping the traffic.

The Congress have decided on a 44-hour working week inclusive of meal times.

Family allowances were discussed, but opinions were sharply divided. The resolution in their favour was defeated.

A resolution was passed calling upon the Government to take over to itself from the Bank of England the power to finance national requirements. It is alleged that a great deal of the unemployment in the country is due to the financial policy adopted by the banks.

The repeal of the Trade Disputes Act was urged.

Mr. B. Shiva Rao attended the T.U.C. at Nottingham as a fraternal delegate from the Indian Trade Union Federation.

The British Medical Journal publishes a report that it requires 19 per cent more energy for a normal person to perform duties in noisy surroundings than in a quiet environment.

It has also been proved by experiments that a sound of a given magnitude produces a reaction of fear in the newly born infant, and that noise raises the blood pressure in the adult.

The New York Noise Abatement Commission are trying to construct noise-proof buildings and create zones of silence in the cities and are imposing fines on those who create unnecessary noise. It is estimated that 75 per cent of the street noises could be abolished.

We wonder when such a Commission will be established in India to investigate and suggest remedies for the elimination of noise from industrial establishments, markets and *mundies* and slum areas of towns and railway stations. The wear and tear on our workers is already great enough, relief from any direction will be a national service rendered to the country.

While we regret that Mr. N. M. Joshi, contrary to every expectation, has not been asked to participate in the Round Table Conference, we are happy to know that Mr. Shiva Rao has been invited to attend the Conference. Dewan Chamanlal declined the invitation extended to him. Mr. Shiva Rao is a self-less, keen-sighted and a respected leader of Labour. He knows his subject well and may be expected to discharge his duties with ability and courage.

We record with much regret the sudden death of Mr. Joseph Baptista on the 18th September, 1930, at Bombay. Mr. Baptista has been an energetic, able and trusted Labour Leader for many years. He had the honour to be elected President of the All-India Trade Union Congress and has represented India at Geneva as one of the Labour Delegates. Mr. Baptista was versatile and besides his high academic gratifications he had much practical sense and

administrative capacity. He was elected President of the Bombay Municipal Corporation in 1925. He represented the Indian Christian community in the Legislative Assembly in 1926. His sudden death has been lamented by all, not least the workers, for whom he laboured so long and so selflessly. Mr. Laljee paid the following tribute to Mr. Joseph Batista at his open grave during the funeral service:

"Mr. Baptista was a great man inasmuch as he worked for the rich and the poor and for the members of all communities. He worked hard for the country particularly for Bombay in a praiseworthy manner. He was a true Christian and went through life like a true Christian. May he rest in peace. On behalf of the citizens of Bombay I pay my last respects to a great man."

—S. K. R.

INDUSTRY, TRADE, TRANSPORT, ETC.

The boycott movement has been in the field for about the last six months. To what extent has it been able to check the imports of British goods in general and foreign cloth in particular against which it has been directed? The answer to this question should be indicated by the decrease in the imports of the commodities in point in those months as compared with the imports in the corresponding months of the previous one or two years. But at the present time the decline in the imports is not due to the boycott movement alone but is the composite effect of the working of a number of factors in the same direction and the results of any one of these are not possible to disentangle from those of any other. The most important of these factors is the fall in the prices of commodities like jute, wheat, cotton, rice and groundnuts. The prices of these in July 1930 compared with their prices in November 1929 fell—of jutes (first) by 30 per cent, of wheat by 38 per cent, of cotton by 40 per cent and of rice and groundnuts

by 14 and 20 per cent respectively. Such enormous falls have reduced the purchasing power of the majority of the population to a very low point. They would have considerably brought down the figures of imports even if there had been no boycott movement. Then, there is the increase in the import duty on cotton goods. This must claim a share of the decline in imports. Then, again, the political situation in the country is all but desirable and must make the country importers and the foreign exporters adopt a cautious attitude towards the amounts they import and export respectively, which attitude would naturally reduce imports.

Still the boycott movement must claim a considerable portion of the decrease in imports during the last six months, especially since July, as directly attributable to itself. Since this month the imports have fallen much more sharply as compared with the imports of the corresponding months of 1929 and 1928 than they did before July, and naturally because the movement could not have been expected to produce its full effects immediately it was launched. Tables of imports are given below which throw a good deal of light on what the boycott has done in this regard in the months in which it has been at work.

Table I—Imports.

Month	1929 Rs. (lakhs)	1930 Rs. (lakhs)	Decrease in 1930 as compared with 1929	
			Rs. (lakhs)	Per cent
April	24,54	18,10	6,44	26·2
May	21,23	17,19	3,32	15·6
June	16,52	13,87	2,65	16·0
July	19,06	13,65	5,41	28·4
August	20,34	12,75	7,59	37·3

Table II—Imports from the United Kingdom.

Month	1929 Rs. (lakhs)	1930 Rs. (lakhs)	Decrease in 1930 as compared with 1929	
			Rs. (lakhs)	Per cent
April	11,17	8,18	2,99	26·7
May	9,05	7,02	2,03	24·4
June	7,16	5,55	1,61	23·8
July . ..	8,04	5,22	2,82	35·0
August	8,47	5,31	3,16	37·3

Table III—Imports of Cotton Twist and Yarn.

(*a*) *Grey* (*in thousands of lbs*)

	1930 April	May	June	July	Aug.	Total
United Kingdom	632	661	545	572	314	2,724
Japan ...	510	549	379	288	240	1,966
Other countries	880	1,091	938	870	405	4,184
Total 1930	2,022	2,301	1,862	1,730	959	8,874
„ 1929	3,410	2,282	2,342	2,969	2,163	13,166
„ 1928	1,108	2,274	2,226	2,067	2,147	9,822

(*b*) *White* (*in thousands of lbs*)

	1930 April	May	June	July	Aug.	Total
United Kingdom	372	427	353	315	194	1,661
Japan ...	10	39	77	43	18	187
Other countries	4	...	2	2	...	8
Total 1930	386	466	432	360	212	1,856
„ 1929	662	509	594	544	384	2,693
„ 1928	878	412	394	465	370	2,019

(*c*) *Coloured* (*in thousands of lbs*)

	1930 April	May	June	July	Aug.	Total
United Kingdom	142	191	180	131	156	800
Japan ...	...	...	4	...	...	4
Other countries	58	16	22	10	6	112
Total 1930	200	207	206	141	162	916
„ 1929	393	418	422	364	422	2,019
„ 1928	276	237	390	227	338	1,468

Table IV– Imports of Cotton Piecegoods (in lakhs of yds.)

(*a*) GREY

		April	May	June	July	Aug.	Total
United Kingdom	..	442	285	180	132	150	1,139
Japan ...	...	298	541	227	146	88	1,100
America ...	...	...	2	1	...	...	3
Other countries	...	1	0	1	8	...	5
Total ... 1930	...	741	628	359	281	238	2,247
„ ... 1929	..	1,016	711	272	665	906	2,650
„ ... 1928	..	813	468	234	516	851	2,882

(*b*) WHITE

		April	May	June	July	Aug.	Total
United Kingdom	...	426	348	259	204	197	1,434
Other countries	..	50	48	33	33	25	189
Total ... 1930	.	476	396	292	237	222	1,623
„ ... 1929	...	596	394	344	398	382	2,114
„ ... 1928	...	593	662	466	390	487	2,598

(*c*) COLOURED, PRINTED OR DYED

		April	May	June	July	Aug.	Total
United Kingdom	...	285	206	153	132	204	980
Continent ...	...	21	22	19	16	26	104
Japan ...	...	105	75	82	55	38	355
Other countries	...	9	10	8	2	6	35
Total ... 1930	...	420	313	262	205	274	1.474
„ ... 1929	...	515	442	306	344	418	2,025
„ ... 1928	..	451	474	366	327	556	2,174

The economic situation in the country has not in any way been eased by the boycott movement not even with regard to the cotton mill industry which was expected to improve under its operation. If anything it has helped to make the industrial and trade depression which has been overshadowing India for some time more depressed. Besides the decline in the imports to some extent, it has been responsible for the closing down of a number of cotton mills particularly those which were European-managed, the shutting up of a part of the Dhariwal Mills in the Punjab, of the Peninsular Tabacco Company at Basdeopur (Monghyr), the stoppage of the work of a large number of the silk weavers at Coimbatore and Salem, and the throwing out of employment as a consequence of these of the thousands of workers and labourers who were employed in those mills and works.

The positive or constructive aspect of the movement thus far seems to be the awakening of the spirit and love of *Swadeshi* which are developing and are sure in the end to produce practical results, and the organising of *Swadeshi* leagues and exhibitions. The former have been established in many important cities and the latter have been held on a small scale at several centres but an All-India *Swadeshi* Exhibition was held at Delhi some days back and another All-India *Swadeshi* Exhibition will take place in Bombay in November. But the chief attainment of the movement is the tremendous stimulus it has given to the production and use of *khadi* or home-spun. Detailed figures are not available of the production and sale of *khadi* as it is being produced in cities and villages by the people for their own consumption. The All-India Spinners Association have, however, issued figures of its production and sale by the association and its affiliated organisations all over the country during the first half of the official year of the Association from October 1929 to March 1930, which are very enlightening as compared with the figures of the same period of

the last year, the figures show that production increased by 73·1 per cent and sale by 50·7 per cent. The figures are noted below :—

Name	Production		Sale	
	1928-29	1929-30	1928-29	1929-30
Andhra	1,24,774	2,89,755	1,93,562	3,33,305
Behar	28,706	1,87,659	1,75,295	2,58,276
Bengal	2,01,466	1,59,780	3,37,858	3,61,279
Bombay	..	...	1,25,150	2,31,531
Burma	..	...	18,256	16,227
Delhi	46,072	1,19,118	38,220	74,702
Gujarat	12,868	16,145	62,808	87,475
Karnatak	34,245	36,868	1,03,442	1,81,309
Kashmir	...	45,485	...	23,128
Maharastra	19,596	31,219	1,24,815	1,70,568
Punjab	48,265	1,11,487	66,431	1,20,816
Rajasthan	74,576	1,41,342	39,408	84,312
Sind	...	...	3,902	33,022
Tamil Nad	5,08,445	7,42,195	4,30,388	5,02,315
United Provinces ...	45,796	1,69,794	95,198	2,71,946
Utkal	18,967	33,220	46,194	51,471
Total ...	12,33,776	20,93,067	18,60,927	28,04,682

A trust called the Export Dniest (India), Ltd., has been formed by some German manufacturers with the aim of 'selling as many German products as they can to India and of buying as many Indian products and raw materials as possible for consumption and use in Germany.' The trust will cooperate with Indian capital and enterprise to further the development of Indian industries and explore foreign markets other than British. It has established its office in Bombay and started work in April last,

Already it is said to be doing excellent business. The large number of articles sold on the footpaths of Bombay are supplied by it and its wares, crockery, hardware, toilet requisites, etc., are very much liked by the people.

For the time being the Export Dniest is confining its activities mainly to selling and buying but it has under consideration vast schemes for the starting of new industries in India which when fully developed will make the country self-sufficient. Of these various schemes one has practically been completed and concerns the establishment of the India Stationery Company which will produce all stationery including the finest kinds of pencils required in India. Other schemes pertain to the starting of the manufacture of cigarettes, glass-ware, soaps, boots and shoes, brushes, chemicals, hard-ware, cutlery, paints and such other articles. So long as these industries are not started, the trust will supply to India the various articles and commodities she requires at comparatively cheaper prices.

The proposal for the amalgamation of the principal mills of Bombay somewhat on the lines of the Lancashire Cotton Corporation is making headway. Several meetings have been held between some of the mill-owners, the Finance Member of the Government of Bombay and the Managing Governor of the Imperial Bank of India in regard to the matter. The services of a representative of the famous firm of mill valuers Messrs Airey Entwistle and Company, Manchester, have been requisitioned for the purpose of valuing the several cotton mills of Bombay. A meeting of the proposed Bombay Textile Mill Merger Committee was held on September 29, 1930 and it decided to send a circular letter to all the mills interested in the amalgamation to supply full information regarding the plant, machinery and buildings of each mill as well as particulars concerning bleaching and dying plant, bungalows, chawls and other buildings with ground plans together with copies of balance sheets of each mill company. The mills will also

present a note on the approximate value on September 30, 1930 of stocks of cotton, cotton in process, yarn in process, cloth on looms, in the warehouse and in bales, stores, coal, oil, and any other articles that constitute the working stock so that the Committee might come to a figure for the working capital of the proposed merger. With regard to finances some negotiations took place between the Finance Department of the Government of India, the Imperial Bank of India and the millowners to advance loans to the amount of about Rs. 10 crores to provide working capital, but final arrangements do not seem yet to have been arrived at.

The Hides Cess Enquiry Committee appointed by the Government of India in September 1929 have submitted their report. They have recommended the creation of a permanent Cess Committee with the object of looking into the problems of improvement of raw stock, leather goods and allied manufactures, and handling them both in India and abroad. They have proposed a constitution for the Committee on which all the interests concerned are to be represented. As regards funds they are of opinion that Rs. 5 to 7 lakhs a year will suffice for the Committee to start on its work. And that this amount will be yielded by the proposed cess rate on raw hides and raw skins. If extra sums are needed they should they suggest be got by raising the cess rate provided the interests concerned are consulted about it and give their consent to it. Concerning the articles to be cessed and the rate of cess, their proposals are—(1) The rate of cess should be one per cent, *ad valorem*; (2) the articles which will be cessed should be raw hides and raw skins; (3) the cess should be an export cess—that is, levied on articles when exported; (4) the cess should be levied according to the existing export duty schedule of tariff valuations.'

The Government of Kashmir had for some years under consideration the question of establishing a silk-weaving factory at Srinagar. They have now decided to start it through private enterprise which will receive every encouragement from the state Government. An agreement has been reached with the local firm named Bhagat Sukhdial Amir Chand which will receive a loan on favourable rates of interest of Rs. 3 lakhs in two instalments and which will be required to pay it back within nine years. Besides the loan which is to cover one-half the cost of the factory, the firm will get raw silk on three months' credit and electric power on concession rates and will be exempt from the payment of the import duty on chemicals and machinery and of the road till on vehicles plying specifically for the use of the factory. The firm has been awarded the monopoly of these concessions for a period of 15 years.

According to a memorandum on world production and trade issued by the Economic Section of the League of Nations the world's population has increased by 10 per cent between 1913 and 1929 while the production of foodstuffs and raw materials has gone up by 25 per cent and the trade by 22 per cent. Since 1925 the iron steel and mechanical industries including engineering, shipbuilding, motor manufacture and the electric industry have increased by 25 per cent. The development of cotton and wool in the textile groups has been slow while that of natural and artificial silk has been quite fast. The production of electricity went up by 33 per cent between 1925 and 1928.

The absorption by the United States and France of the equivalent of world's production of gold since 1929 which has deprived the central banks of £50 million is one of the chief causes of the existing economic crisis the world over. What situation the world will have to face when the gold production which is put at £80,800,000 for 1930 comes down year by year to £74,000 in

1940 and which will decline much faster after this date owing to the gradual exhaustion of the South African mines according to the forecast of the gold delegation of the League Financial Committee cannot be conjectured without alarm. To avoid another crisis the world will have to agree to some system of currency which will do away with gold for domestic currency purposes.

The continuous decline in the British exports of cotton piece-goods is very well brought out by the figures which the British Government Cotton Committee appointed in August 1929 to inquire into and report on the position and prospects of the Lancashire cotton industry give in their report which is out. The figures show that in 1913 Britain exported 7,252,000,000 linear yards of piecegoods and in 1929 only 3,764,851,000 linear yards—that is the export of these goods declined by 3,487,149,000 linear yards. The chief reductions are in exports to India which came down by 60 per cent in quantity and to China and Japan which fell by 70 per cent. The exports to British India decreased from 3,057 million yards in 1913 to 1268 million yards in 1929 and to China and Japan from 773 million yards to 220 million yards. The figures for 1930 will tell a much more woeful tale.

The Lancashire Cotton Corporation is going to absorb the whole British cotton trade into a rationalised industry. It has since its registration examined 204 companies controlling 29 million spindles with a view to their absorption. 160 of these companies have been found fit for absorption and offers have been made to them for coming in while 40 companies have been refused as being unfit. Of the 160 companies that have been asked to join in 99 companies possessing $9\frac{1}{4}$ million spindles have accepted the offer and 17 companies controlling $1\frac{3}{4}$ million spindles are still considering it. Half of the latter companies at least are expected to agree also.

A number of prominent industrialists and commercial men in Britain have formed a Council of Industry with Sir W. Morris the well-known motor manufacturer as chairman. The aim of the Council is to advance by all possible means the economic and financial prosperity of Britain and protect Empire Trade. It has proposed 'a programme of protection for the industries, a drastic reduction of taxation, and a common Empire fiscal system.'

According to a statement of the *Times of India* the situation with regard to the Bombay Textile industry is showing signs of improvement. Many firms have made sales and considerably reduced their stocks. As a result several mills which had decided to close are at work. The unemployment figure has come down. Towards the close of September it stood at 51,000 but now it is 33,000.

The present position as regards the industry is that out of a total of 78 mills in the city 16 are closed entirely and 15 are working partially, while the remaining 47 are working normally.

—G. D. K.

REVIEWS OF BOOKS

BRITISH BUDGETS. SECOND SERIES. 1913-14 to 1920-21. By Sir Bernard Mallet, K. C. B. and C. Oswald George, B.Sc. (Econ.). Messrs. Macmillan & Co., Ltd., 1929. 8vo, pp. xxii+410. Price 20s. net

The two outstanding features of this second series of British Budgets presented by Sir Bernard Mallet in collaboration with Mr. C. O. George are increases in public expenditure and in public debts. The extent of the growth in public expenditure from 1913-14 to 1920-21 will appear from the following table, which also includes the figures for 1918-19, the year of maximum nominal expenditure :—

SERVICES	AUDITED EXPENDITURE IN £ MILLION DURING		
	1913-14	1918-19	1920-21
Consolidated Fund	37	281	378
Fighting	86	1,416	354
Civil	55	1,400	523
Revenue (Post Office, Customs, etc.) ...	30	50	76
Total ..	208	3,147	1,331

Even if allowance is made for the fall in the purchasing power of money, the growth is truly remarkable and is a striking testimony to the elasticity of the British system of taxation.

Coming now to detailed figures, it is to be noticed that the expenses for Consolidated Fund Services and Civil Services have each risen nearly tenfold, whereas the cost of the Fighting Services has increased nearly four times during 1920-21, as compared to 1913 14. It is true that the first and the third increases are mainly due to the War, but the same thing cannot be said of the Civil Services —a fact which will be evident from the following analysis :

Items of Civil Service	Audited expenditure in £ million during 1913-14	1920-21
Railway and Canal Agreements (including Coastwise Transport Subsidy)	—	43
Bread Subsidy	—	10
Coal Mines Deficiency	—	15
Old Age Pensions	12	25
Public Education	19	58
Board of Agriculture	1	6
Ministry of Health and Health Insurance ..	5	15
Ministry of Labour and Unemployment Grants ...	1	29
Total ..	38	231

Leaving out other items of a like nature such as housing subsidies and advances, which also are not directly attributable to the War, there has been a considerable increase in social expenditure. In this lies the secret of success of the British taxation system. By spending more money on education, for instance, there is a greater impetus to production on the one hand, and a transference of wealth from the rich to the poor on the other. Thus far from there being any unduly heavy burden of taxation, there may be a net gain to the community in the shape of a higher national dividend as well as in its better distribution. Unfortunately in India, the tendency seems to be to starve the secondary services of the state on the plea of "economy" and financial stringency—a short-sighted policy whose effects are so patent at the present time.

Another feature no less disquieting in the Indian budget is the heavy proportion of indirect taxes to total revenues. In Great Britain, on the contrary, income-tax is very sharply graduated and the proportion of direct taxes to the total tax revenue has gone up from 57·5 per cent during 1913-14 to 68·2 per cent during 1920-21. Thus not only is more given to the poor as shown above, but more is also taken from the rich, with the result that inequalities are removed

by a double process. This "democratisation of finance" becomes evident when we remember that during 1874-75 the proportion of *indirect* taxes to total tax revenue was about the same as the porportion of *direct* taxes during 1920-21, viz., 67·2 per cent. Furthermore, indirect taxes are made up of the taxation of luxuries to a greater extent now than before.

The increase in the British Public Debt from £649,770,000 on 1st April, 1914, to £7,585,410,000 on 31st March, 1921, is appalling, even when adequate allowance is made for the variation in the purchasing power of money. It may not be generally known that the pre-war debt is also a legacy of previous wars—the Boer War, the Crimean War and even the Napoleonic Wars. In fact, if the British Public Debt of £850 million during 1817 is compared to the debt of £650 million at the beginning of 1914-15, it will be evident that the decrease of £200 million in the nominal amount is rendered nugatory by the considerable increase in the value of money. If the previous wars thus led to debts, which were so heavy as to be difficult of repayment in the existing conditions of public finance, the heaviness of the burden of the present war-debts cannot be regarded as incommensurate with the gigantic effort, which had to be made. It is true that the British depended on taxes rather than on loans for financing the War to a much greater extent than the other belligerent nations, yet, at this distance of time, one cannot fail to notice an unjustifiable disinclination to enhance taxes, e.g., in Lloyd George's first war budget. Even now, when fatuous cries about "making the enemy pay" have been silenced, one frequently hears talks about "making the posterity pay." As Dr. Dalton has rightly pointed out, the posterity, if they pay at all, pay to the posterity and not to the present generation It is only by reducing the debt that the debt charge may be reduced; there is no other way. Repudiation is politically impossible; inflation is economically disastrous—elsewhere as in Germany.

Could this burden of public debt have been made lighter, not only by resorting to greater taxation, but also by avoiding wastes? This brings us to the authors' estimate of the whole financial policy and administration of Great Britain during the War. According to them, there is no question that the maximum fighting capacity of the nation was never attained. There is equally no question that there was "failure to attain the optimum point of taxation, failure to reduce to a minimum all unnecessary consumption and failure to avoid serious social discontent." The usual gibe about being wise after the event cannot be applied to the authors, who are thoroughly unbiassed, although rightly critical. Nor do they fail to recognise that other belligerent nations have fared worse than Great Britain.

The presentation of the figures and their analysis leave nothing to be desired. If the first part of the present series lacks the pungency of opposition speeches extracted in the previous series, the second part gives a closely reasoned and extremely valuable discussion on public finance.

H. SINHA.

RUSTICUS ROQUITUR, by M. L. Darling, pp. 400, Oxford University Press, Bombay. Price Rs. 9.

Mr. Darling once again has laid all students of India's Rural problems under obligation to him. He has given an intimate view of the village problems of four differing sections of the Raiyat. The book is informing, stimulating, illuminating and scholarly. Neither dry-as-dust nor dullness find place.

The book is based upon experience, study and wide reading.

The first part is a diary beginning December 3, 1928, ending February 16, 1929. It covers fifty daily marches on horseback, and extended to over seven hundred miles. Many Co-operative Societies and Banks were examined.

The second part of the book summarizes the tour, conclusions are drawn and suggestions are offered. These are bound to command attention.

The book calls to mind, and the title suggests the method of Herodotus. The author reports what he hears, without accepting it as always true, or reasonable. It also suggests Cobbett's "Rural Rides," although there is this difference between them, Mr. Darling looks on the country-side with the eyes of the economist, strongly concerned with the co-operative movement, while Cobbett rides as a farmer, with a gospel of better agriculture for England. If today I wanted to take up farming in England, I would go over Cobbett's writings knowing that his observations would be of value to me in my quest for a soil of high natural fertility.

While gaining much information from the author's daily marches, there is much that he does not record that the farmer would like to know. The author is interested in the results of agriculture, he sees the importance of better farming, but of agriculture as such there is little in the book. The farmer would like to know the breed, quality and condition of the sheep and goats belonging to the family of Gaddis, pp. 7 and 8. The farmer also is interested to know the variety, yield, and cost of production of the various crops, the different cropping systems in the different tracts.

The author is loyal to the Panjab, and lauds its people who are worthy of eulogy. Does the exaltation of the Panjabi cause a depreciation of the dwellers in the less favored provinces? many non-Panjabis would question :—"But where the rainfall is higher, vitality is low; and where vitality is low character suffers" (p. 67). During my years in India I too have come to admire the Panjab and its folk, and to note their many virtues. Truth however compels me to add that there seems to be something in the Panjab atmosphere that is inimical to the growth of that estimable virtue, modesty.

There are several instances of a curious use of words :

Should not "herd" on pages 17 and 78 be "herder"?

Should not "girdle" on pages 61, note 1, and 142 be "griddle"?

On pages 49 and 283 is not "churn" used to describe the dasher or agitator? Is not the "churn" the "vessel" or container as used in this sentence on page 49? As I have seen one type of Indian churn at work, a piece of cord is given two or three turns round the handle of the dasher. The person or persons who work it, hold one end of the cord in one hand, and the other end in the other hand. Each arm is pulled in towards the body or thrust out from the body alternately; this causes the dasher to revolve clockwise when one hand is pulled in towards the body and counter clockwise when it is thrust out. Is the author quite clear when he states:—"She turns it rapidly to and fro"? I am not familiar with the idiom "turn to and fro." As one familiar with some of the processes of making butter, I am not sure that the author clearly expresses his meaning in the following: (p. 49) ". . . dung cakes are used to heat the milk and make the cream rise. In the evening this is mixed with curds, and the next morning the whole is churned into butter." The procedure usually followed is that the milk is boiled slowly, which sterilizes it, then some curd saved over from the previous batch of sour milk is added to sour it with bacteria that give a desirable flavor. This curd which has been saved over is usually called a "starter." Having stood all night, the starter has usually done its work by morning and the whole is sufficiently sour to churn. The object of churning is to separate the butter fat from the curd. There is no process recorded telling how curds can be churned into butter. "Taking out men their meals" (p. 351) hardly conforms to the demands of rhetoric.

These instances are noted because they are there, but it would not be wise to allow them to influence the mind unduly against the real solid worth of the book, which is great.

The plan of the book is to make most of the diary center round those aspects of village life not adequately dealt with in "The Panjab Peasant in Prosperity and Debt." These are, in general, the peasant's relation to the landlord; religious leader; beggars; cattle; cost of marriages; village industries; status of woman; emigration; housing; rural sanitation and rural reconstruction. A lover of India tempted to be impatient at the slowness of the upward trend in the standard of living in the villages will be enheartened by the enumeration of the many examples of progress met with on this tour. I tried to make a list and found it altogether too long to insert in this review. If the educative processes observed—just beginning or well-established—can be patiently, intelligently continued and multiplied, some now living will see a new India wherein the old light will be suffused with the new, and a contented prosperous and happy people dwell. It is this slow, persistent, unhurried, educative programme that will bring results. If only patriotic, enthusiastic young India could see its unsurpassed opportunity to enlarge and hasten this programme, it would prepare itself for the task. Without adequate preparation success is impossible.

The author seems committed, along with many other present-day writers, to some theories that some others do not regard as fully established: Birth control; overpopulation; against improved farm implements for the village farmer, and other machinery to rid human life of its degrading debasing drudgery, (see p. 64) "to complete one's disgust an oil engine."

The business of agriculture the world over, today, is depressed because more has been produced from the fields than the present number of people in the world can consume with their present standard of living. By many it is assumed that an increase of population causes a lowering of the standard of living. To remedy this depression two things should happen which are not mutually exclusive: (1) more mouths to feed, more bodies to clothe, more houses to be built; (2) each mouth to consume more, each body to have more clothing, each house to be enlarged or in other words an increased population enjoying a higher standard of living. The recent census of the United States shows a population increase of 16·1 in ten years. The standard of living has risen during this period.

India as a whole is not overpopulated. Millions of acres of good land await people to cultivate them. Some parts of India have congested areas, where the people press too heavily on the land. Far too large a percentage of the population is engaged in agriculture. Some way should be found to get forty per cent of those engaged in farming off the land into education, industry, manufacture, commerce and transportation. Cheap electric power in the Panjab, with the mechanical bent of certain groups (Sikhs and motors), promises to relieve the pressure on the soil.

India in the production of her staples is in competition with world production. What the present situation in India calls for is to reduce the cost of production. This demands improved methods, and the basis of a better method is improved farm machinery and implements. Cost of production is being continually lowered in those countries which are increasing the amount of power machinery. India with the country plow, bullock draft, hand tools, threshing floors cannot compete with the tractor plow or the combine-harvester-thresher. The author gives an example of the custom of two pairs of bullocks to work 28 acres in Lyallpur which has canal irrigation. Thus is—one bullock to each seven acres with old fashion country implements—an impossible burden. But with modern implements adapted to the bullock, one bullock to twenty acres is ample. India must come to improved farm machinery if she is to have a favourable margin between cost of production and selling price. The agricultural departments of India have a record of which they may well be proud, yet it is true that the branch known as Agricultural Engineering is the "Department Neglectum." The Agricultural Colleges have highly trained engineers in almost every branch of engineering except agricultural engineering. In connection with all the big irrigation schemes there is great need for an agricultural engineer. Many mistakes might have been avoided and much progress made had these been attended to. The author reports

(p. 249) a fodder cutter out of order and no one to repair it. The limiting factor in the introduction of improved farm machinery is not money, but men trained to maintain it in running order.

Regarding Mr. Gandhi's spinning programme, the author approves. Now if there is no other possible gainful occupation for the small farmer when he has no work on his land, all well and good. But if there were reasonable inducement to make the effort, the farmer might devote his time to improving his holding, as for instance, levelling land, terracing, putting in dams to prevent erosion, digging new wells or deepening old wells, drainage, trenching manure, or working at a compost heap, preparing bone for phosphate manure, fencing, protection against wild animals, insect pests, and various fungus and bacterial disease, intensive instead of extensive farming. Such effort would ultimately give a much greater return than spinning. This most Indian farmers know, but the system of land tenure where the landlord takes a fixed share of the produce discourages the farmer. The Panjab saying is that the *Batai* system makes the landlord rich and the tenant poor. The author cites farmers who had very little left after landlord or moneylender had taken his share (pp. 248--285). He also mentions landlords "who levy dues not entered in the revenue papers but sanctioned by custom" (p. 293). In some parts of India the illegal exactions of landlord or petty official do more to hinder agricultural prosperity than almost any other cause. Nothing cuts the nerve of effort more than to know that one is not to get a fair share of the increased produce due to one's own extra effort. Between landlord and money lender the farmer frequently is left with less than he needs to keep him efficient. Why sow for another to reap?

The manure pit is advised by the author. In many cases it is all that can be done under present conditions. Dr. Fowler at Cawnpur, and Mr. and Mrs Howard at Indore suggest that a compost heap properly inoculated, turned over several times, not only increases the manurial value, but greatly shortens the period of rotting. A properly managed compost heap uses all organic waste and quickly converts it into valuable manure.

The author reports that many Panjab farmers keep a cow to produce bullocks, and a buffalo to supply milk and ghi. This is an economic waste. The cow should not only produce the bullock, but also the milk and the ghi. There is a widespread but erroneous belief that draft quality in the bullock, and milking capacity in the cow are mutually exclusive. Those best qualified to know in India, contrary to the findings of the Royal Commission, point out that a dual purpose type of cattle where draft-quality shall be present in the male and milk capacity in the female are attainable in India. A cow producing forty pounds of milk a day, will generally produce it cheaper than a buffalo will produce an equal amount of milk. There is usually much more body weight to be maintained in the buffalo than in the cow. Therefore more of the ration must go to maintain the body, before any of the ration can go to the production of milk. Until very

recently (with one or two notable exceptions) little attention has been paid to breeding to increase the milking capacity of the Indian cow. It is a waste of good food to feed a cow for milk if she does not have the milking inheritance, it is also a waste of good cow to underfeed her if she has inherited the capacity to produce milk.

The author examines Mr. Brayne's work at Gurgaon and points out its defects, which are serious, yet in spite of them the experiment is worth all it cost. With a little better atmosphere and attitude it might have succeeded. What Mr. Brayne was attempting is what Mr. Darling also advocates, also Mr. Moreland and the Royal Commission on Agriculture. It is an attempt to capture the citadel of the Indian peasant farmer, to get at his *will* in terms that the villager can comprehend. Without getting the willing consent and hearty co-operation of the villager no programme for rural betterment can succeed. Therefore all welcome the author's suggestions to deal first with the inner man, once that is won, the expression of that light from within the villager will be fruitful.

This book opens the floodgates and one could go on. But that would be hardly fair to the reader. Get the book and study it. The last chapter deals with the relations between religion and economics. There is needed to-day much further study in this field. There is promise of rich harvest to the one who will work out the economic consequences of social custom and religious belief in India. The book is put in the attractive manner we associate with the Oxford University Press. There is a map indicating the route, an adequate glossary, good index, plenteous footnotes.

SAM HIGGINBOTTOM.

THE TRADE OF THE INDIAN OCEAN, by Vera Anstey, D.Sc. (Econ), Lecturer in Commerce, London School of Economics. The University Geographical Series. Longmans, Green and Co. (1929). Pp. xvi+251. Price 8/6 net.

Mrs. Anstey—who was well-known in Bombay before she returned to England after the untimely death of her husband, Principal P. Anstey of the Sydenham College, in 1920—has recently made her début in the world of Indian, one may be permitted to say Eastern, economic literature and has published two praiseworthy books during the course of the last year, viz., 'The Trade of the Indian Ocean' and 'The Economic Development of India.' It is proposed here briefly to review the first book in which the author has made an attempt "to account for, as well as to describe, the nature and extent of the existing trade and to

distinguish the outstanding commercial tendencies and potentialities of the principal areas" of the Indian Ocean, which are mentioned below in the order in which "the various regions would be visited by a traveller making a periplus of the Ocean, starting from Aden, i.e., Aden, Iraq, Persia, India, Ceylon, British Malaya (and British territories in North Borneo), the Dutch East Indies, British East Africa, and Mauritius." India is far and away the leading country of the Ocean as regards area, population, and total trade, accounting for 43 per cent of the total value of the trade. Along with British Malaya (23·3 per cent) and the Dutch East Indies (19·8) it contributes as much as 86 per cent (by value) of the total trade originating or terminating in the Indian Ocean. Ceylon takes the fourth place (4·5 per cent), then comes Persia (3·4 per cent), next British East Africa (2·2 per cent), then Mauritius, Aden, Iraq and British Borneo, each with approximately 1 per cent. Another striking feature of the trade is that it is concentrated upon a relatively small number of large ports which are situated upon one or two outstanding trade routes. The other areas, though they possess great potentialities, are today in a backward economic stage of development owing mainly to their primitive means of communication and transport.

It is interesting to note that though India is the premier trading area of the Indian Ocean as said above, her trade per head is actually less (£1·3) than that of any of the other areas—even of those whose economic development has only just begun—where it ranges from £9·3 for Ceylon to £3·7 for the Dutch East Indies and £2·9 for Iraq, not to speak of British Malaya whose enormously high figure of £79 per head may be considered as abnormal owing to the inclusion of Singapore, with its extraordinary entrepôt trade. Even after making allowance for the fact that this comparison is unfair to India since it ignores the enormous internal and coasting trade of the country, it shows the low level of average production and consumption of its masses. The author is therefore correct in assuming that a slight improvement in the standard of life of the Indian ryot might suffice to give a world-wide stimulus to her commerce, though we do not agree with her view that "the basis of the exchange between India and the United Kingdom can in general be termed 'specialisation.' Mrs. Anstey obviously underestimates the capacity of India, given the necessary opportunities, to produce manufactured goods at present imported from the United Kingdom.

The countries included in the study of the Indian Ocean, which has a background of geography and history, reveal the most varied types of people, in different stages of economic development. The book nevertheless possesses a certain unity of substance or plan of its own as Professor A. J. Sargent points out in his introduction to it, in so far as firstly the whole area in its modern economic development has depended on European capital and ultimate economic control, secondly the plantation system is to be found in several countries included in that area, and thirdly there is an elaborate organisation of production and trade, financed from Europe, but controlled effectively by Europeans on the spot. It is

only in recent years and to a limited extent that India has been devising measures for restricting the use of foreign capital and delimiting its control over the economic exploitation of the country.

In the chapter on Commercial Organisation, the author gives a very illuminating account of the origin, functions, utility and possible abuses of the "Managing Agent System" in India and other areas of the Indian Ocean and shows how it has worked better in Malaya and the Dutch East Indies than in India. In the former countries owing to fewer lines of trade and types of production fewer opportunities exist for a clash of interests between the various enterprises controlled by a firm of Managing Agents. There is also little rivalry between foreign and indigenous traders and there is no excessive concentration of power in the hands of a few individuals or families as in India. A common feature of the trade organisation in these areas, which we so much lament in India, is that practically the whole of the lucrative foreign trade, exchange banking and shipping are in the hands of firms whose headquarters are located in Europe or some other foreign country.

A prominent characteristic of the trade of the Indian Ocean is that the latter is a great source of supply of the raw materials and foodstuffs that are in great and increasing demand by the industrialised countries of the West. The principal exports are: cereals, oilseeds, mineral oil, raw and manufactured textiles (jute, cotton and wool) mineral ores, sugar, rubber, tea, etc. The chief imports on the other hand are: miscellaneous manufactures including cloth, manufactured metal goods, machinery, railway plant, coal, salt, manures, cement, petroleum, wood pulp and paper. The rise of the textile industries in India and the Far East and of the Tata Steel and Iron Company in India has produced a decline in the class of miscellaneous and, to a small extent, metal manufactures going to the Indian Ocean from the North. While the author is prepared to make a limited exception in favour of India, she confidently expects a continuation for a long time to come, of the present type of exchange throughout the greater part of the Indian Ocean Here again we must say that she displays a striking faith in the hasty generalisation known to economists as 'territorial division of labour.'

The author's study of the trade of the Indian Ocean reveals another very interesting feature, common to almost all the areas included in it, viz., the excess of merchandise exports over imports which appears striking even when allowance is made for their net imports of specie. This may be explained on the ground of the peculiar commercial and political relations that exist between the industrialised and imperial countries of the West and the countries of tropical luxuriance of the Indian Ocean many of which are the dependencies or colonies of the former. The latter have, therefore, to make payments for their various 'invisible imports,' i.e., for the use of Western capital, for shipping and commercial services rendered, for commercial and financial organisation and for administrative as well as military services and knowledge.' In this connection the author briefly refers to the alleged

"drain" theory in India and expresses her approval of the conclusions arrived at by Sir Theodore Morison who argues in his book, "Economic Transition in India," that India receives a commercial equivalent for all the items of the so-called "drain" of her wealth to the United Kingdom. It is obviously not possible within the limits of this review to join issues with Mrs. Anstey on this point. But we must point out that while we are prepared to concede that the payments in question do not altogether constitute a drain, the conclusions of Morison have not been entirely accepted even by the moderate section of Indian public opinion.

The author's treatment of the labour problem on the plantations in the various areas of the Indian Ocean is both adequate and fair to a degree. The author frankly admits that under the system of indentured labour in the last century "the coolies were entirely at the mercy of their masters and in practice their status was equivalent to slavery." Thanks, however, to the gradual realisation of the abuses of this system by the various Colonial and other Governments involved, the indentured system and the penal sanction of labour contracts have eventually been abolished almost everywhere.

The book under review is a mine of information and makes altogether a very interesting and instructive reading. Several other questions, not so far noticed, have been dealt with therein such as, the economic characteristics of the various areas of the Indian Ocean, a general view of the main trade routes of the Ocean, the direction of trade of the several countries involved, changes in the distribution of their trade, a comprehensive study of the plantation industries (tea, coffee, sugar, rubber, etc.), and a survey of the trade in minerals such as coal, manganese, tin, mineral oil, etc. Special emphasis has been laid on the decline in the share of the United Kingdom's export trade with the various areas of the Indian Ocean as also on the popularity and success of the trading methods of the Germans, the Japanese and the Americans who have stiffened their competition with the United Kingdom in the Oceanic markets in the post-war years.

The utility of the book has been considerably enhanced by the inclusion therein of a number of valuable maps, graphs and statistical tables which serve vividly to illustrate the various aspects of the central theme of the author. We have no hesitation in saying that the book under review is a model of research work and reveals a very careful analytical study and critical faculty on the part of the distinguished author. We must, however, say that Mrs. Anstey has not succeeded in altogether shaking off the common Western prejudices and pre-possessions in relation to the economic problems of the East. We are, however, glad readily to recognise the merits of her achievements and to endorse Professor Sargent's compliment to the author that as a skilful artist she has successfully assembled and interpreted the pieces of the puzzle of the trade of the Indian Ocean.

S. G. BERI.

LABOUR AND HOUSING IN INDIA, by Raj Bahadur Gupta, M.A., Ph.D. (Econ.), Lecturer, University of Lucknow. Longmans Green & Co. Ltd., pp. 264, price Rs. 7-8-0.

Probably nothing touches the average man and therefore society as a whole, so profoundly—as his *home*—the place where he lives with his family and wherein are enshrined some of the deepest and the most sacred memories of his life. It is on this aspect of the life of the Indian working man that Dr. Raj Bahadur Gupta has given us his book. We believe it is the first book of its kind for India. There have been other works, but these deal with a restricted area, for example, Professor Burnett-Hurst's book deals with the Housing Problem of Bombay Presidency only. In Dr. Gupta's book, we have a very thorough and detailed survey for the country as a whole.

The book has been divided into four parts. Part I treats of the Housing Problem, Part II deals with the Social Aspect of the Housing Problem, Part III relates to Housing and Public Health, and Part IV deals with Remedies. There are Appendices and a useful Index. The book has a very interesting and instructive, though somewhat lengthy introduction by the well-known Indian Economist, Dr. Radha Kamal Mukerji, also of the Lucknow University.

The outstanding merit of the book is the fact that it is not the result of an arm-chair production, but the outcome of a prolonged and close study of the question at first hand and direct observation of numerous labour centres visited personally by the author up and down the country. The only field not touched is the Tea Garden Estates where we believe various schemes of labour housing, e.g., coolie-lines, busties and village settlements have been worked out by the companies. A survey of these by the author would have been interesting.

The book contains a careful comparison and contrast of the solution of the housing problem as worked out in European and American countries. Such references to foreign countries are necessary and useful. We would wish to submit to the author to include in the future issues of his work a comparison with the housing conditions in, say China and Japan. We have a feeling that such comparisons will prove more fruitful and probably not so depressing as comparisons with the very rich and highly-advanced countries of the West, like England, America and Germany. As far as we know our Indian conditions, bad as they are in all conscience, are nothing like so depressing as the industrial centres of Japan and China, say cities like Tokyo, Kobe, Shanghai, Canton and Nankin.

The author has given true and faithful description of the housing conditions as they exist and the manifold evil social consequences that result therefrom, but also has made helpful, and practical suggestions for the overcoming of these evils. His remedies are worthy of serious consideration.

The author brings out forcefully the dual peculiarity of our Indian industrial cities which add considerably to the difficulties of building suitable houses to meet the requirements of the different categories of workers. The one is the

migratory character of the population and the other is its disproportionately large male-composition. Single men's dwellings and family houses for more permanent residence must be provided in our housing schemes of the future.

The sex problem to which our attention is drawn by the author deserves very careful consideration and calls for immediate action by all concerned, if we are to save our industrial population from imminent disintegration and sordid degradation. We may here draw attention as a contrast to the position of women workers in the fields and farms of India, by reference to a beautiful passage in the book on page 46. The growing sex disproportion, and the still greater disparity of the sexes at the age of puberty, in the cities, necessarily leads to sexual and other social evils assisted as these are by the presence of prostitutes and the grog-shops.

With regard to high rents and low wages the author has to say : " . . . . high rents are not only a direct hardship upon the small wage-earners, in so far as they take away a good part of their income, but indirectly leave a most disastrous effect upon their health." In Nagpur, for instance, the author states that the percentage of income spent on house-rent by a family of unskilled labourers is 22 and in the case of an artizan family 13·3. The author does not accept the result obtained by the Bombay Labour Office Enquiry, conducted in 1924, into wages and cost of living which gave the figure 7·7 per cent as the average cost on house-rent incurred by the working class family in Bombay. Whatever be the discrepancies in the figures, house-rent does show a large share of the workers' income spent under this head.

We are convinced that until a minimum wage legislation is passed a great deal of suffering on this account will not be mitigated.

Dr. Gupta has no hesitation in saying that the employers as a class have failed to meet the needs of their workers. They have not cared for the housing of their employees. He is most scathing in his condemnation of the Ahmedabad millowners. He writes : " The millowners are generally very rich and have been making high profits at the expense of the poor labourers. They can do much to improve the conditions of their employees if they raise their little finger. But they have so far been criminally neglectful of all their duties towards them . . . It is a pity that the Ahmedabad millowners, in spite of huge accumulated riches, have done practically nothing for those who made all those riches possible." These are strong words ! We hope they will have their desired effect.

One of the major difficulties in the way of improvement is lack of finance. But Dr. Gupta courageously and rightly says : " The question of finance has to be settled by provincial legislation, so that the municipalities might provide money for their needs : firstly, from local rates and cesses; secondly, from provincial contributions; thirdly, from municipal loans; and finally, and in the last resort, by taking recourse to fresh taxation earmarked from particular purposes. The fact is that we simply have to find money for these purposes. Money is found to finance war, why in the name of sheer commonsense, should the necessary

burdens not be borne to wage war against these great social evils connected with bad and inadequate housing?

The story of Improvement Trusts and the Development Directorates are pathetic reading! Dr. Gupta recommends: "What is needed, therefore, is to make the Trusts more popular on their advisory and deliberative side, to give proper representation to the interests likely to be affected, especially to the labourers and other poor classes and to curtail expenses by reducing the number of whole-time and highly-paid officials and establishments."

Dr. Gupta rightly thinks that the adequate solution of the housing difficulty should form one of the primary functions of the State. He suggests raising a Housing Fund by issuing Government Bonds, under direction of Provincial Governments, from which loans should be given to various bodies; municipalities, co-operative societies and other organisations under certain terms and conditions. He looks to co-operation as the best solvent of the problem. It is a matter of regret that so far much headway has not been made by this form of co-operation in India. But probably we are in the beginnings of great changes in this direction.

We have but to conclude by saying that Dr. Gupta has produced a weighty work which must command the attention of all those who are mindful of the health and happiness of others in our industrial cities. He has rendered their cause a valuable and faithful service.

—S. K. R.

INDUSTRIAL WELFARE IN INDIA, by P. S. Lokanathan, M.A., Reader in Indian Economics, University of Madras, pp. 222.

The volume of literature on Indian Labour is happily steadily growing. Indian Labour as a field of economic enquiry as measured by the number of industrial workers may not be a very extensive one, but that it is vital to the country's well-being none can doubt. So it is fortunate that the State as well as private individuals are giving it more of their attention. Mr. Lokanathan's contribution to the study of this field will, we are certain, occupy an important place in the literature on this subject.

He has grouped his study into three main divisions. Part I treats of State and Welfare, Part II of Employers and Welfare, and Part III of Trade Unionism and Welfare. There is an Introduction by Dr. Gilbert Slater who rightly congratulates the author for his careful, painstaking and accurate survey of the field. There is a useful Index attached. We wish the author had included a Bibliography. We trust this will be done in the future issues of the book.

We must confess that the title of the book misled us not a little! The term "Industrial Welfare" has attached to itself a very restricted meaning and usually includes only those activities that are undertaken by the employers, or other philanthropic bodies for the amelioration of the lot of the workers. We therefore

feel that it is a distinct stretching of the use of the term to include under it the activities of the State in this direction. We submit that some such title as "A Study of Indian Labour" would be a more accurate description of the book.

We can say that it has been a very pleasant task for us to read the book. While being technical and strictly accurate in the handling of his material, the author has been able to present his subject in a remarkably attractive and readable style.

We have also to observe that the book is free from all bias and pre-conceived prejudices which so commonly mar the value of books on Labour. We are certain that Employers, Labour leaders and State officials will find that the author has treated his subject with eminent fairness and justice.

Remarking about our industrial legislation as a whole the author rightly says: "There can be no doubt that this steady and progressive character of the legislation makes it superior to one based on theoretical or *a priori* considerations . . . There is often no question of principle involved in the details of industrial legislation, it is largely a matter of expediency." He also correctly states: ". . . . there is no basis for alarm that the country is adopting reforms in any undue haste at the instance of the International Labour Conferences. . . . . The Government of India have always been able to put a dyke against the current of hasty legislation by their insistence on circulating to the Provincial Governments at every new step. . . . . By thus placing enquiry first, the country has been able to avoid the pitfalls of ill-considered legislation and there is no reason to fear that any departure from the traditional practice will ever be made." While we admit the thoroughness of the method, we hold that the pace of legislation may have been quicker than it has been in several directions, e.g., Maternity Benefit, Fortnightly Wages Payment, Minimum Wage Provision, speedier exclusion of Women working underground in mines and the like.

We are not quite sure that we agree with Mr. Lokanathan's proposal that the Compensation Commissioners should be empowered to initiate proceedings for the award of compensation to injured worker or his dependents. We realise that many victims now suffer for lack of this provision. But we are confident that with the growing strength of the Trade Unions and the awakening of Labour in general such cases will rapidly diminish in number.

With regard to Welfare Work the author very rightly says: "The idea should never get into the minds of the several heads of departments that Welfare Work is none of their concern and that it is only the duty of the department specially created for the purpose." We have personal knowledge of establishments both in the country and abroad where welfare work has not made much headway simply because there was lack of co-operation, if not actual hostility to the entire idea by the managers or other departmental heads and foremen.

Another cardinal principle of Welfare Work which has been duly emphasised by Mr. Lokanathan is: "No scheme of Welfare Work is ever likely to be successful unless it is worked with the consent of the workers and with their willing and

active co-operation. Many a kindhearted employer or philanthropic society have been embittered because of the apparent lack of enthusiasm or appreciation on the part of the employees for the work done which is due, simply because they have failed to act on the above principle. We are glad to note, however, that many firms, railways and other establishments in the country have constituted duly elected committees or similar bodies by which the Management and the workers come into intimate consultation and co-operation on such matters.

A general survey of different types of Welfare Work done in the country is given which is very instructive reading.

An able analysis and description of the Trade Union movement in India is given. We feel sure Labour leaders and employers, too, will find this part of the book full of interest.

We find ourselves in agreement with the author when he deplores the exclusion of the Ahmedabad Unions from the general Trade Union movement of the country. He writes: "And yet Gandhi's position, sound in itself, is from a larger and international point of view defective. Labour has become an international question and at the World Conference at Geneva there should be one body for each country which could speak with authority and voice the demands of the labourers of the country." We are certain the author must be deploring the recent Trade Union movement developments in the country which reached their climax in the very regrettable split in the ranks of the Trade Union Congress at Nagpur last year. We trust re-union will soon be established for the good of the workers as a whole.

In conclusion we have to say that in writing this book with such painstaking care, scrupulous fairness of mind and obvious devotion, Mr. Lokanathan has rendered praiseworthy service to the cause of the Welfare of India's industrial workers. We commend this book with confidence to the reading public.

--S. K. R.

SILVER JUBILEE SOUVENIR, 1930 (The Triplicane Urban Cooperative Society, Ltd). Printed at the Madras Law Journal Press, Mylapore, Madras, pp. 22.

The Triplicane Urban Cooperative Society, Ltd., celebrated its Silver Jubilee at the end of January 1930. The present volume is published as a souvenir to commemorate that unique event. A successful Cooperative Society is in itself a great blessing. To be able to celebrate its Silver Jubilee is certainly a great achievement. We beg to offer our most cordial good wishes to the society and wish it the best of luck.

The volume is divided into five sections. The first contains greetings and messages sent by prominent cooperators from all parts of the world. We must say, the good wishes expressed in them the Society has earned in full.

The second section gives us a detailed account of the origin and growth of the Triplicane Urban Cooperative Society from 1904 when it was started. Its membership has increased from 14 to 5,781, its sales from Rs. 20,000 to Rs. 11,15,000, its deposits from Rs. 855 to Rs. 1,86,000 and its reserve fund from Rs. 259 to Rs 84,000. There is also a Common Good Fund—to which one-fourth of the profits is credited—which has grown from Rs. 193 to over Rs. 36,000. All this shows a fine record of progress and the society can well afford to be proud of it. The whole system of purchase and distribution is clearly explained. The problem of eliminating the middleman—the chief aim of a distributive society—still presents difficulties but we are confident the society will ultimately find a satisfactory solution of it.

The third section contains special articles contributed by prominent cooperators, some of which we have read with great interest and profit. The Hon. V. Ramadas Pantulu writes on the economics of Consumer's Cooperation. Mr K. T. Paul, Secretary of the Y. M. C. A. writes a brilliant article on Cooperation in Denmark in which he gives a flashlight picture of the system of distributive cooperation in Denmark for which that country is famous. Prof. Ramakrishnan of the Madras University writes on Linking Consumer's and Producer's Societies while Mr. T. S. K. Aiyangar writes on the future of the T. U. C. S. The fourth section is of local interest, giving us the details of the Jubilee celebrations at the head office and at the branches. The fifth and the last section gives a complete list of the past and present officers of the society.

The volume is very well illustrated and it makes a very pleasant reading. The story of the early difficulties and of the faith and energy with which they were overcome will inspire many a Cooperative Society throughout the length and breadth of this country. We are confident the society has glorious work in front of it and we wish it the best of luck.

The volume is a very creditable record. Its get up is excellent.

B. MUKHERJEE.

BIHAR CO-OPERATION (Hajipur Subdivision), by Sadashiva Prasad, M.A., pp. 202, price Rs. 1-8-0.

This is a small volume of about 200 pages and it gives us a lucid account of the present position of the co-operative movement in the Hajipur Subdivision in Bihar. As the author explains in the preface, there are numerous books on the theory of co-operation but very few on the practical working of the co-operative movement in the villages. It is this great want which the author wants to meet by this brilliant and exhaustive survey of the movement in one important subdivision of Bihar. We are glad to note that this is not his first attempt. His earlier volume on the Co-operative Credit in Jamui Subdivision gave us a beautiful account of the co-operative movement in another part of Bihar.

The first chapter in the book under review deals with the history and growth of co-operative societies in the subdivision. The societies are classified under five distinct heads—Model, Good, Average, Bad and Hopeless. In 1928, out of 177 societies there were 12 model, 39 good and 111 average societies. The average working capital per society in 1928 came to a little over Rs. 3,000. The author finds that up till now only 2 per cent of the people have joined these rural societies—which shows the size of the vacuum we have yet to fill. The author takes us through the different types of societies and gives us interesting accounts of them. He thinks (p. 23) that the supervision of the primary societies is inadequate. The Supervisors are overworked and it is indeed too much to expect that they would supervise efficiently not less than 40 societies in the charge of each individual. This problem of supervision affects not merely the Hajipur subdivision in Bihar but all subdivisions in all provinces throughout India. "If co-operation fails," wrote the Royal Commission on Indian Agriculture, "there will fail the best hope of India." If co-operation ever fails in India, it will be due entirely to the lack or difficulty of supervision. Due to the general illiteracy in India, the problems and difficulties of supervision are far greater than in the more advanced countries of the West. The system of group secretaries where one man has to do the secretarial work of a large number of societies grouped together is due solely to the fact that we can't easily find a literate man fit for the work in every village. It is with very great difficulty that we can rope in a number of societies with one literate man as a group secretary. The author gives us very valuable materials regarding the debts of members and it is noticeable that in many societies the members' debt to the mahajan exceeds the debts to the society (pp. 32—47). Wherever the mahajan beats down the society there is room for enquiry. Such a phenomenon can be due to one or the other of the following reasons, viz:—

(*a*) either the Mahajan's system suits the cultivator admirably and he does not want to go to the society, or

(*b*) there must be some grave defects in the society system of granting loan, or

(*c*) the capital available with either party is inadequate to meet the total needs of the village and hence it becomes necessary to approach both in order to find adequate finance.

The co-operative movement was organised to fight the mahajan over a thousand fronts in India. It is apparent we are losing the battle in a number of them. It would be very interesting to find out why the Mahajan beats us and how. We regret we get no reply to it from the author. We hope he will fill up the gap in the next edition of the volume. The analysis of the objects for which loans are sought (p. 91) is very interesting but the author holds that members seldom utilise their loans, for the declared objects. That is a great pity. Our societies must exercise greater control on the use of loans. The benefits of the movement—economic, social and moral—are discussed in a subsequent chapter but it is the last chapter—where the author describes the

defects of the movement in Hajipur—which would be found eminently useful by all co-operators. The author has courageously exposed the grave defects from which the movement suffers and we are confident that if the authorities will now review the position of the societies in the light of the defects exposed, it would go a very great way in improving their position and stability. There is no need to be disheartened but there is need for courage and faith. The movement is really indebted to the author for his very able and searching enquiry. We wish there would be many more like him. The price of the book is Rs. 1-8-0 and it can be had from the Bihar and Orissa Co-operative Federation at Patna.

—B. MUKHERJEE

THE INDUSTRIAL DEVELOPMENT OF INDIA, by N. M. Pal, M.Sc., Ph.D., to be had of The Book Company, Calcutta, 1930. Pp. 242.

This volume is intended "to give a descriptive and critical account of the industrial or economic development of India" (Preface). It is divided into five books. Books I, II and III are concerned with the development of the mining and manufacturing industries, the agricultural industries and the forest industries respectively; Book IV deals with the development of the factors of production; and, Book V compares and evaluates the old and the present economic systems.

The volume is, on the whole, quite a satisfactory production. It lays no claim "to special inspiration, discovery, or originality, but simply to usefulness" (Preface). There is no doubt that the volume is a very useful one. It presents a fairly comprehensive and critical account of the existence, decay where it occurred. and growth of the different kinds of industries discussed in the first three books particularly since the times of the East India Company and brings the account down to the year 1926-27. These three books contain the best part of the volume. The fourth book is rather sketchy. The treatment of the three factors of production—land, labour and organisation—is not as full as it should be considering the space devoted to the treatment of industries as well as the importance of the factors themselves. The treatment of the 4th factor—capital is practically neglected. What little consideration it receives or what one can infer about it is only in or from the account given of railways.

As regards Book V, we are afraid, we do not mostly agree with the author in the views he holds about the old Indian economic system and its bases. But that does not take away anything from the worth of the book. We are, at one with him in his evaluation of the new that is the present system

The volume will be of immense use to the students of Indian economic system and we gladly recommend it to them.

—G. D. K.

An Elementary Treatise on Indian Money, Banking and Finance, Part I. First Edition, by Tarapada Dass Gupta, M.A., (Calcutta). The Bengal Publishing Co., 1929. Pp. 107. Price Rs 2-8.

The author has wisely refrained from giving an introduction or preface to the book. A concise volume on the subject was a long-felt want and surely no apology was needed for bringing out such a book. Necessarily many interesting topics and much valuable information had to be left out in making a brief survey of so big a subject. Mistakes of omission may thus be easily condoned.

The book is divided into nine chapters dealing with foreign trade, gold and silver, money, prices, foreign exchange, our currency system, paper currency and reserves and a gold standard for India. Contents of the book belie its title which seems to be misleading inasmuch as nothing has been written on the subject of Indian banking and finance. Perhaps the author has reserved these topics for the second volume of his book.

The success of the author in presenting fresh information in a concise manner and lucid form deserves special commendation. The impartial and unbiassed manner in which facts have been presented renders the book specially valuable to politicians and students alike.

The usefulness of a much needed volume like this is unfortunately marred by the existence of several mistakes in the body of the book. A few samples are given here to help the author in eliminating them.

On page 20 the first paragraph starts with the statement "all desirable things are wealth." On page 26, line 10, states "Now reserves generally constitute about 50 to 60 per cent of the total value of notes in circulation." (Common usage does not justify the limitation of the term reserves to mean only the metallic portion of the Paper Currency Reserve.)

On page 26 a standard coin has been defined as follows:—"A coin to be strictly standard must be freely coined by the Government, *i.e.*, any individual may present bullion at the mint for getting the same coined on making a nominal payment called the seigniorage."

On page 35 an arithmetical error has been committed in the culculation of the average. (Page 37, line 12) "When the supply of commodities decreases, the demand for them increases."

(Page 46, Footnote) "Thus the rupee appreciates in terms of the sterling when the value of the sterling increases."

(Page 55, last paragraph) "In 1868 it was notified by the Government of India that sovereigns and half-sovereigns . . . . should be received in all treasuries as the equivalent of 10 and 5 rupees respectively." (The notification was really made in 1864, not 1868.)

On page 56, line 22, states "Four great international currency conferences held at Paris." (It was the first conference of 1867 which was held at Paris and the author, most probably, refers his readers to that conference.)

(Page 75, line 10)—"The exchange rate which had risen to 1s. 5d. in August, *1717*."

There are several misprints in the footnote given on page 79. In the footnotes given on pp. 7 and 83 readers have been referred to Appendix I which has not been given at all in the book.

(Page 87)—Provisions of the Gold Note Act of 1898 have not been correctly stated. (It was the Act of 1905 which gave full powers to the Government to hold gold either in London or in India. The footnote given on page 96 should have been given on page 95.

Numerous printing, spelling and grammatical mistakes have been committed in the book.

The tendency of authors to be original even in quoting figures and dates renders the task of reviewers doubly difficult Some figures given in this book too do not tally with those given in standard works. If authors could consent to give the sources of their information, they would rightly earn the gratitude of their readers and reviewers.

It is hoped that a second edition of the work would not have these defects and that the book could, then, be safely placed in the hands of students and beginners. The removal of these shortcomings is an urgent necessity and the author and the publishers may safely expect their pains to be richly rewarded. The Indian public has at last been aroused to a certain extent and is showing signs of interest in this neglected subject.

—SARASWATI PRASAD.

EVOLUTION OF LOCAL SELF-GOVERNMENT IN BOMBAY, by R. P. Massani. Published by Oxford University Press, pp. xviii, 421. Price Rs. 15.

'Evolution of Local Self-Government in Bombay' is the latest addition to the scanty literature on the subject of Local Self-Government in India. The energies of our best men so far have been more or less exclusively concentrated on matters of wider political significance with the result that this subject has not received its due share of study and thought. However, last winter we had two papers on local finance and administration, read before the annual session of the Indian Economic Association and now we have before us this very interesting book. This shows that we are beginning to realize the great importance of the study of problems of local administration in the programme of national evolution.

The work under review is capable of being divided into four parts: (1) first three chapters which deal with the Local Self-Governing organisations which existed in Pre-British days; (2) next three chapters which deal with the local administration of Bombay City, from 1665 to 1793; (3) next eight chapters which deal with Municipal life in Bombay during the period, 1793 to 1865; and (4) last eighteen chapters which cover the period from 1865 to the present day. Taking as a whole the author's treatment of the present, that is, the achievement of the British in the domain of Local Self-Government in the city of Bombay during the nineteenth and twentieth centuries is both full and faithful to the facts. The same, however, is difficult to say

about the period 1727 to 1793 and still more so about the period 1665 to 1727, while his generalisations about what we had in the Pre-British days are rather hasty.

Nobody who has had any the least familiarity with the life of people of this country and who has even cursorily gone through the historical data available today would challenge *in toto* the statement of the author in chapter 1, page 2, that "It is true, nevertheless, that the conception of Local Self-Government is not foreign to the genius of the people." And yet it is not easy to substantiate with any reliable data the thesis that cities and towns in India had self-governing organisation for administering their municipal life. And this because whereas we have almost an overwhelming evidence, both in the past and the present, to show that every-day life of the people was permeated with the ideas of Self-Government and self-help there is not much to show that those ideas were put into practice on any general scale for the administration of municipal life in the cities and towns of India. It is this lack of positive evidence on the point that presumably has forced our otherwise critical author to make such a self-contradictory statement as he does in the following: Long before self-governing organizations were evolved in Europe *Indian cities had their village communities* and popular assemblies and their Sabhās and Mahāsabhās, Parishads and Saṁghas, Samūhas and Punchavaras for the control and management of local affairs."

During the period 1665 to 1727 we are given a mass of useful and interesting information as far scattered in published and unpublished records. To a reader not familiar with the difficulties of securing materials for this period the account given by Mr. Masani may appear as not quite full, and to a trained researcher as rather uncritical. But perhaps it is the best that could be given under the circumstances. However, I must add that the author has not done full justice to the historical data available and to the reforms in local administration introduced by Aungier.

Chapters dealing with the period 1727 to 1793 and entitled a Century of Local Government by the Governor-in-Council is again full of interesting details about the municipal life and municipal administration in the city of Bombay. As a narrative of facts the account given by Mr. Masani is both full and faithful. But as a statement of the true constitutional position and even as a statement of the details of administrative organizations it is by no means complete. As a practical proposition it is quite true that the Governor and Council looked after the municipal life of the city of Bombay during this period. But from a strict constitutional point of view they did not. The Charter of 1926 vested the Municipal Government of the city of Bombay in a body of the Justices of the Peace and it was because the only Justices of the Peace named in that Charter were the Governor and Members of the Council that the Governor and Council came to be in practice the municipal authorities of the city.

From this point onwards Mr. Masani's treatment of the municipal life of the city of Bombay is quite rich in the wealth of its details and the mastery of exposition. The only thing that it does not emphasise in as full

a manner as the importance of the subject deserved being the finances of the city at various stages.

There is no doubt in our mind that Mr. Masani's work is by far the best of its kind and gives ample evidence of being the result of continuous and strenuous labour over a series of years. He has given us a book of extraordinary interest and to those engaged in the municipal work of Bombay it must prove of lasting value. As a matter of fact it is so full of interesting comparisons and sidelights from other countries of the world that no student of municipal life in India, no matter to what part of the country he belongs, should forget to read it and derive inspiration from its pages.

—B. G. BHATNAGAR.

THE CAMBRIDGE HISTORY OF INDIA. Vol. V. British India, 1497—1858. Edited by H. H. Dodwell. Cambridge University Press. Pp. 683. Price 30s. net.

The volume describes in thirty-two chapters the political history of India during 1497—1858. Professor Dodwell has not only edited the volume but has contributed as many as eight chapters. One notable feature of the volume is that the chapters dealing with the rise and development of the French Power in India are written by Frenchmen, one of whom is the Professor of Colonial History at the Sarbonne and an ex-Governor of the French Settlements in India. The chapter on "The Dutch in India" is written by Dr. P. Geyl, Professor of Dutch History and Institutions in the University of London. Among the other contributors may be mentioned Mr. P. E. Roberts, Sir Denison Ross, Sir William Foster, and the late Mr. S. M. Edwards. There are altogether sixteen contributors to the volume.

Professor Dodwell has generally avoided overlapping though it was impossible for him to bring the chapters to one uniform standard. On the whole, however, one outlook—The British way of looking at the history of India—has been maintained throughout. The standard reached is not so high as is expected from a work on such an ambitious scale. It raises hopes which it does not fulfil. For instance, in Chapter X, the writer says "something by way of detailed criticism may now be attempted on these clauses" of the Regulating Act of 1773 but contents himself to pointing out two defects in the proposed Court of Directors. It is doubtful whether the volume will be regarded as a standard and authoritative work on the period. In any case, it is not useful to students of Indian Economics and Indian Economic History, as it does not deal with economic questions.

It is not necessary to review the contents in more detail in this Journal.

—GURMUKH N. SINGH.

MALABAR AND THE PORTUGUESE, by K. M. Panikkar D. B. Taraporevala Sons & Co., Bombay, pp. 15+221. Price Rs. 6.

It is being slowly recognised in India that much of what passes for Indian History after 1500 A.D. is really based on one-sided evidence and that where the "facts" of the period are not in dispute, the interpretation at least is misleading. European writers have been too prone to take the statements of early Portuguese, Dutch, French and English adventurers at their face value without any critical examination. Since these statements are generally flattering to European vanity and Indians have so far been content to take them on trust.

There is, of course, a danger that Indian writers should go to the opposite extreme. Mr. K. M. Panikkar who writes the first chapter of the new history - dealing with the coming of the Portuguese in India suffers from no such defect. Mr. Panikkar writes of them only in relation to his own province—Malabar. It is somewhat natural that in some places he should be carried away by bias in favour of his native country but such lapses from impartiality are few and on the whole he deals with his material fairly and maintains a high standard of historical accuracy. Mr. Panikkar relies mainly on the Portuguese records summarised in Danver's book on the Portuguese in India but uses some new material also—notably from the Malayalam histories of Malabar. The result is a notable addition to our knowledge of Portuguese history.

—H. R. BATHEJA.

LORD HASTINGS AND THE INDIAN STATES, by Dr. Mohan Sinha Mehta, M.A., LL B., Ph.D. D. B. Taraporevala Sons & Co.; pp. 275. Price Rs. 10.

This book on a subject of surpassing interest at the present day is a valuable contribution to Indian historical literature. The author has drawn exhaustively, if also exclusively on British and official sources and apologizes in his Preface for his inability to lay under contribution the Indian and unofficial sources which perhaps would have enabled him to express opinions more freely and fully that he has been able to do without them.

Dr. Mehta's treatment of his subject is lucid and exhaustive, indeed he would appear to have aimed at fullness at the risk of prolixity. Lord Hastings's policy, of bringing all India under British paramountcy, was conceived quite early in his career as Governor-General as a result of his own observation of the evils of the existing lack of system and had the support of experienced and capable Anglo-Indian officials of the "Wellesley School" though it failed to secure the approval of the 'Home' authorities or the unanimous support of his Council. The circumstances and measure through which

it was carried into execution with the desired result are very ably and clearly explained as are also the new features introduced by Hastings into the system of alliances with Indian Princes. These features are seen most conspicuously in the treaties with the Rajput States of which Dr. Mehta has rightly given a fuller account than of others.

Except for the use of small type in its printing, the book is very well got up and the Publishers deserve to be congratulated on its production.

PARMANAND.

SOME SALIENT LESSONS FROM THE FOREIGN BANKING SYSTEMS AND THEIR APPLICATION TO INDIA PROPER

BY

B. RAMCHANDRA RAU,

Calcutta University.

SUMMARY

In this essay are set forth some of the salient lessons that this country can hope to learn from some recent happenings in the foreign banking systems. With the problem of starting the Central Reserve Bank in the foreground of the banking reconstruction plan, certain other lessons which ought to be borne in mind are pointed out. There can be no overhauling of the banking structure without the creation of the Central Reserve Bank. An elastic system of rural credit and proper specialisation in the field of credit must be some of the important aims of the banking reformer who seeks to overhaul the banking structure. A banking system without the C. R. Bank is like Hamlet without the ghost. But an erroneous start in the organisation or the working of the credit policy or the aims of the C. R. Bank would taint and pervert the whole of the banking system. The difficulties in its path must be overcome by skilful banking practice and it will not take long time to appreciate the usefulness of the C. R. Bank. Its immediate achievements might not be very tempting and its immediate success might not be assured but by patience and perseverance alone can the Reserve Bank evolve into a useful organisation, as safe and steady as the Bank of England itself, and maintain the currency and finance of our country in a state of stability.

The Connotation of the Term "Bank."

Surveying banking institutions from Japan to England we discover that banking business is not the same everywhere nor is

it so static and fixed as some of the observers of the banking systems are apt to consider. Banking business is of slow evolutionary growth. While the word "Bank" has received an extensive and wide connotation on the European Continent and Japan the modern English bankers still pin their faith to the conservative and old-fashioned idea that "banks should provide money and not capital." This, at any rate, is the bounden duty of the commercial banks. But a society requires other types of banking institutions to complete the financial machinery which its manifold activities require. Until now Indian banks have been slavishly following the English Banker's conception of his duty. Nothing is more important than to fill the gap in the monetary field arising out of the banks confining themselves to commercial banking alone.[1] Either a change in the conception or an extension of the connotation of the word "Bank" is essential. Mere extension of the duties of the commercial bank without due precautions is dangerous. Some of the co-operative credit societies who have combined the granting of long-term loans along with short-term loans have found out much to their chagrin that the cultivators require long-term loans alone, even for bona fide short-term needs. When the mentality of the Indian borrower is such it is inadvisable to allow one and the same credit institution to perform both the purposes, viz., the provision of loans for short as well as long-term purposes, however cautiously it might propose to conduct these operations. An elastic rural credit system both for short as well as intermediate and long-term purposes would be essential to complete our banking structure. Every banking system including the English banking sys-

1 Specialisation has extended so far in the U.S.A. that we meet with banks started solely for financing certain industries alone. Quite recently the Continental Bank of New York decided to increase its capital and finance the broker's requirements and thus pave the way towards stabilising call money rates and the collateral loan market rates. About 350 stock exchange and curb houses hold the stock and the directors are all representatives of the brokerage houses.

tem has now made systematic provision for elaborate long-term provision of capital to agriculture and industries. India, being predominantly an agricultural country cannot afford to postpone the adoption of this essential and useful feature.

A Central Bank of Issue.

Excepting Canada where a Central Bank of Issue does not exist all other banking systems have a Central Bank of Issue acting as the guide, friend and philosopher of the credit institutions. Whether designed as a pure Central Bank or allowed to act as a Commercial-cum-Central Bank the main duties of the Central Bank are to gather a big monetary pool, pursue resolute monetary control and bring about expansion and contraction of credit so as to maintain healthy conditions conducive to the prosperity of the traders and the general public. Admirably fitting itself into the gold standard monetary organisation it controls the gold movements into and out of the country and protects the gold standard system from the evil influences arising out of a gold efflux or influx.

So far as the general features of these Central Banks are concerned they are the depository of the reserves of the other banks and the reserves of the Government. They are the custodians of the national gold stock and the supervisory monetary policy is greatly facilitated by this watch and ward over the entire gold resources of the nation. Acting as the Government Banks they manage the public debt, make disbursements on behalf of the Government and lend money to it within limits laid down by the legislatures of those countries. The discharge of these duties confers prestige and undoubtedly adds to their earning capacity.

A survey of their actual operations would enable one to realise that there are three types of Central Banks. The Continental type as typified by pre-war German and French Central Banks which conducted private business in competition with the commercial banks. Both the Reichsbank and the Bank of France performed

these banking operations in several places and they acted as banks of deposit, discount and issue to the general public as well as the banking institutions.

Opposed to the above mixed type of Central Bank stand the modern Federal Reserve Banking System and other Central Banks created after its model. The pure Central Banks as they are often designated regulate credit and currency and rediscount for member banks alone and do nothing else. They have business dealings with the Central Banks of other countries.

Midway between the two types stands the Bank of England. It regulates credit and currency and mobilises the national gold stock in its hands. It has important private business of its own not only with the Central Banks of other countries but with the general public, the Government and the commercial banks. Through the bill-brokers it carries on its expansive and contractive side of its operations. Its open market sales and purchases of securities make the bank rate effective. All these types of Central Banks have one comprehensive programme of social utility and they propose to achieve this by altering the discount rate and trying to exercise through it, certain amount of influence on the price-level and the stabilisation of the business life of the country. Discarding the old gold basis as the sole regulator of their discount rates they are using varied economic data to regulate their credit policy and this new orientation of their credit policy is such that it forces even the pure Central Banks to enter the money market and by means of their "open market operations," i.e., by buying and selling securities they attempt to establish a close touch with the country's credit conditions and secure effective control of the money market. Almost all the Central Banks realise that they are not "mere dividend-paying machines, but nobler and higher instruments endowed with altruistic motives which inspire them to perform the sacred task of regulating credit and currency and managing the gold standard in the wider interests of the country. The aim of earning dividends for the

shareholders has everywhere been subordinated. As Governor Strong of the F. R. Bank of New York says, "Earnings are not an influence in fixing the credit policy" of the F. R. Banks. Such an enlightened ideal governs the actions of the different Central Banks. Though Commercial-cum-Central Banking is pursued the substantial duties and operations with the public do not go much further than the ones of earning its own expenses and a mere reasonable profit to its shareholders. Another cardinal function of the different Central Banks is "to save the public at the right moment from the ruin which might result from the blunders of the private banks." So far as ordinary duties are concerned "the Central Bank performs the same benefit for the daily traffic in the banking world that the pneumatic tyre does for the motor car. It cushions the bumps and makes the whole service easier, smoother, speedier and more efficient."[2]

While the above are the functions of a Central Bank and the performance of which would entitle any bank to be considered as a Central Bank there is now much uncertainty as to the proper manner in which the Central Bank has to be organised and managed. When even private Joint Stock Companies consider it important to maintain national control and not allow themselves to be managed by foreign investors there ought to be some hesitation in an economically undeveloped country in the matter of organising a shareholder's type of the Central Reserve Bank.[3] The limitation of voting rights to nationals and national corporations and discarding foreigners as directors unless approved by the majority of the Board are some of the methods pursued to eliminate the undesirable influence of alien shareholders. Another useful move is that of the Marconi International Marine. It consists in

2 See Governor W. H. Clegg's article on "Contral Banking in South Africa," Economic Journal, December 1929, p. 532.

3 A more thorough statement as regards the advisability of the particular type of organisation of a Central Bank will be found in my Present-Day Banking in India, Chapter on the Central Bank of Issue.

setting aside the "foreign share" separately and allowing the foreign shareholder no privilege to hold the "national share" while the national shareholder can own the share even in the "foreign register."

The recent American invasion to secure control over British companies is being openly resented and several of them like the General Electric Company are not allowing the foreigner to acquire the majority of the shares so as to secure control over its policy.[4] When the Central Bank has to discharge important national duties there is no reason why foreigners should be allowed to have controlling voice.

To eliminate all such undesirable influences the method of starting a Central Bank by issuing public debentures guaranteed by the Government gives a convenient handle. Though the idea of a mixed State Bank is thoroughly familiar to the Indian public yet it introduces or gives scope to the Government to exercise political pressure on the Bank. Considering the fact that throughout the world the executives of the Central Banks are being made free from political pressure and independent enough to pursue national policies there is no wisdom in hankering after the old and almost forgotten ideal of a mixed State Bank. If the shareholders' type of a Central Bank is undesirable for, without a clause which introduces racial discrimination the restriction over foreign control cannot be exercised, it has to be given up. The State-owned and State-managed Bank, being also undesirable it easily follows that a stockholders' bank would free it from all dangers arising out of a defective constitutional organisation of the Bank.

[4] The Imperial Airways Co. of the United Kingdom excludes totally all foreigners from holding shares. See also the Literary Digest which says that "one after another of the British Companies whose securities have been made active by American buying are meeting hastily and amending their charters or by-laws to provide that control can never go overseas and that a majority and frequently all of the directors of the Corporation must be born British subjects." March 30, 1929.

All Central Banks display an international mentality and a rapid development of this needed mentality cannot be engendered by a purely State-owned or mixed State Bank or a shareholder's Bank. A stockholder's bank under the capable guidance of experienced bank officers would easily develop this mentality and stand ready to co-operate with the executives of other countries and bring about the international financial community of interests. The idea of world peace can thus be better established indirectly by this method than by any other direct move such as the proposals for disarmament of navy, army, etc. It leads to a disarmament of the mind and is bound to succeed.

The Cash Reserve of the Central Bank.

War-time and post-war experience shows us that the reserve of a Central Bank can be far lower than the legal reserves when no gold is seriously intended for internal circulation. Gold is now intended for mere export purposes and the national gold stock that ought to lie in the hands of a Central Bank should depend purely on the balance of payments. As gold will be called upon to pay the unfavourable balance it ought to bear a proper relationship to this alone. But in actual practice all Central Banks fix a relationship between notes and deposit liabilities which are "unrelated and this is clearly meaningless" says J. P. Colbert.[5] Both the fiduciary and proportional reserve systems are meaningless as applied to the Central Bank. A low proportional reserve or a high maximum for fiduciary reserve is essential to give elasticity to the note-issue. Any other legal reserve regulation would be stringent and would heighten the demand for gold on the part of the Central Banks of the world. A falling supply of the world's gold stock would result in bringing about deflation. Gold would tend to become exalted as the master, instead of being treated, deservedly, as the servant of mankind. To reduce and remove altogether such

[5] See the Statist, Jubilee No. 1928, p. 39.

undesirable consequences the gold reserves ought to bear a fixed proportion say a fixed multiple of the volume of trade and if this proposed idea underlying the Central Bank's reserve were to be accepted the international gold centres have to maintain higher stocks of gold than the above so that this free margin of gold would allow them to play the role of international financial centres.

Though the rational basis of the above suggestion can be easily understood no nation has adopted this principle in the formulation of the cash reserve basis of the Central Bank.[6]

Elasticity of note-issue without the danger of monetary inflation is the cardinal basis on which the note-issue privileges of a Central Bank are formulated. The fixed fiduciary principle now recognises the advisability of fixing this limit at as high a maximum as possible so as to cover all seasonal requirements without any alterations in the law. The expansion of this note-issue limit at times of panic is permitted and a periodic revision of the note-issue limit is also desirable to satisfy the changing requirements of the people. This is what the cumulative experience of France and England teaches us. All nations condemn any deflationary tendency underlying the note-issues when the trade demand is growing. They are equally emphatic in their declaration for checking any inflationary tendency which can be brought about by the issue of excessive bank notes. This is the reason why all countries which have adopted the proportional method of note-issue have carefully defined the nature of the assets which can give rise to the notes. They have jealously guarded the legal character of such notes and have promptly arranged for the due retirement of these notes.

This power of safe and elastic note-issue can be properly exercised by the discretionary capacity of the Central Bank's execu-

6 Even our Gold Standard Reserve meant for stabilising the G.S. System is not based on this principle. It was discussed as the only safe basis for the fixing of the amount of the G.S. Reserve but was given up. Only £40 millions are now held in the G.S. Reserve.

tive. So long as the Government does not create a note-issue of its own nor abuse the right of borrowing freely from the Central Bank of Issue the note-issue can be made safe and elastic at the same time by the wise management of the Central Bank. The war-time experience of the Central Banks amply demonstrates the truth of the above statement. The Bank of England succeeded very well simply because there was non-interference on the part of the State and when this was abused as in France and Germany excessive note-issue became the rule. Dr. T. E. Gregory is essentially right when he remarks that "the Central Bank which is an organ of economic self-government implies that the State will neither print paper nor abuse its right of borrowing. As soon as these implications cease to be true the power of the Central Bank ceases or vanishes."[7]

Though some Central Banks pursued the policy of holding foreign bills freely in the days of currency interregnum, i.e., until the gold bullion standard was definitely established, this policy seems to swerve in the direction of strengthening gold reserves and the ultimate aim is to maintain exchanges at par by the use of bullion only, independently of any foreign bill reserve. Both the Central Banks of France and Italy have been pursuing this policy in the latter half of 1928. Too much should not be made out of this arrangement alone and force the Central Bank of Issue of this country to maintain foreign exchange balances alone to settle the balance of payments.

Even England, the classical home of fluctuating bank rates, has adopted quite recently the policy of maintaining a steady bank rate irrespective of the gold stocks held by it. By virtue of pegging arrangements which exist between the bank rate and the deposit rate of interest all money rates become influenced by this policy. The maintenance of this policy stands as a token of its desire to help industrial and business reorganisation so badly need-

[7] Quoted from the Jubilee Number of the Statist, 1928.

ed to enable England to compete effectively with its rivals and maintain its predominant position as the world's greatest exporter of manufactured goods.

All economists admit that the general price-level of a country is susceptible to several forces operating from within the country as well as from without. The supporters of the doctrine of " managed currency " do not propose to straighten out this price-level by means of credit policy alone. The enthusiastic advocates of Central Bank management realise fully " that prices are not a stone wall which is quite immovable but they are not equally wax which gives way to every pressure." They realise full well that the price-level presents a strong resistance to all interference. They are aware of the fact that if undue pressure which is being exercised is increased beyond a certain point it is not the price-level that would decline but the withdrawn currency is replaced by some other less perfect substitute. It may therefore be recognised that the amount of monetary circulation is more feasible of alterations than the price-level itself. Hence the monetary reformers now believe that " it is easier to adapt the quantity of money and credit to a changed price-level than to modify prices by managing the circulation." All this is realised by the advocates of modern monetary reforms. They, also, believe that the action of the Central Bank should be timely and however much its influence might be reinforced by other measures, the claim that it would promptly check business organisations from being overpessimistic or unduly pessimistic is not voiced by them. The open market operations might not be very efficacious[8] and the bank rate would fail to carry full sting in the absence of a well-developed bill and short-term money market. It is only in a highly concentrated banking sys-

8 This is what is realised by the F.R. Board itself during 1928 and many of its officials as well as critics discredit the " managing policy " of the F.R. Board. Officials as well as witnesses before the Select Committee on Banking and Currency admit that credit control is ineffectual and that it cannot stabilise prosperity." See the Statist, May 19, 1928.

tem that the arrangement of a centralised banking machinery would function well. But even there it might be true that a little more competition might be all that might be needed and the rigorous castigations of a Central Bank would not after all be the needed correctives or the panacea for the financial ills of each and every country.[9]

But it must be admitted that a timely action would go a long way in checking abnormal price and business fluctuations that are productive of so many evils to society. Relative stability of the price-level should be the objective of the Central Bank no less than the stability of the money rates.

Without stability in money rates industry cannot hope to flourish even if it were to be blessed with tolerable stability in commodity prices. Higher money rates generally tend to produce uneasiness in the stock market and place hindrance in the free investment of fresh capital. This is the lesson that the recent high money rates of Wall Street teach us (April and May, 1929). These variations in money rates not only tended to make the Stock Market nervous but induced higher money rates all over the world in order to defend their stocks of gold. Even India had to experience a seven per cent bank rate on account of these higher money rates prevailing abroad.

Foreign Capital.

The orderly flow of foreign capital through the financial institutions of the country mainly for the purpose of promoting industrial development and other developmental purposes has a favourable bearing on the foreign exchange market. Interest payment and dividend remittances may otherwise operate but the whole process is an advantageous one tending towards the building up of national wealth. This is the recent experience of Japan, Canada and Germany. There must, however, be a limit to the foreign

9 See A. J. S. Baster, "The Imperial Banks."

borrowings or else interest charges would mount up to an inconveniently high figure and cannot be balanced through increased exports. Again another disadvantage might arise when the flow of foreign capital from foreign sources might be stopped all of a sudden. Germany had to experience such difficulties in 1928 when the American stream dried up on account of keener demand for speculation on the New York stock market. Germany had to fall back on London and France for securing the needed short-term capital. But when there is international tightening of capital, dependence on foreign capital would be suicidal. Germany realised this situation long ago and almost all countries have been making persistent efforts to develop internal capital markets so as to reduce their dependence on foreign capital. Japan, Canada and Germany are successful examples. Germany, in particular, knows the fact that German economy depends purely on the domestic capital market. The increase in savings deposits of the German depositors is often alluded to as an infallible sign of capital increase on the part of Germany. It is not after all a real sign of economic growth for it depends on higher wages and these reflect on the production costs of industry and capital supply to industry. Although high rates of interest were paid for the domestic loans very few German subscribers were to be found for the loans floated in the year 1928. The situation has improved to a certain extent but dependence on foreign capital is not given up as yet. The German Banks have attempted not only to accumulate domestic capital but have made it their duty to intelligently co-operate with the creditor countries and secure the needed supply of foreign capital for the domestic borrowers. A prominent German banker says, " Capital is in its very nature international and only elemental occurrences in the political or other spheres can divert it from its natural field of activity. The movement of capital towards Germany can, in the long run, therefore, only be averted by Germany herself, if she pursues an erroneous economic policy, for it is not to be supposed that the atmosphere of international

economic understanding, which is apparent today throughout the whole world, will entirely be dismissed in the near future."[10]

As British capital is of the type which takes all the risk and all the profit, it is better financial wisdom to lessen our dependence on it. The American capitalists insist on securing a fixed rate of interest. The South American conditions amply prove my statement. No wonder America's capital is increasingly employed in State Railways, public works, etc., and the socialistically inclined States are conducting the public utility services with the help of American capital. The lesson is apparent. We should allow Great Britain to act more as a banker (till the domestic capital market expands) to the Indian industries and less as a workshop supplying us with technical requirements. These would have to be manufactured within this country under Indian industrial aegis. At present banking, insurance, shipping and personal services are being rendered to us for our raw materials and food products. In future banking, shipping and insurance services would be declining as Indian people would be rendering more active service under these heads than before. If Indian domestic capital which is, of late, taking some active part in commerce were to pursue this same policy towards industries, shipping and insurance the economic self-sufficiency and progress of the country would be facilitated. Like the socialistic states of Argentine and Australia our States should aim at securing foreign capital mainly into the fixed interest-bearing type of investment reassuring the larger share of the profits for the whole community by the State-ownership of public services.

The Internationalisation of Banking.

The major commercial banks in most of the advanced countries of the world are fast tending to become international in character. The internationalisation of banking is being achieved in three

10 Quoted from the Report of the Darmstadter Bank.

ways: (a) by extending branches abroad, (b) by purchasing shares in foreign banks so as to acquire controlling interests, (c) by combining with other banks operating in the foreign area. Though in the pre-war days it was method (a) that ruled the circumstances increasing use is being made of methods (b) and (c) in the war and post-war circumstances. This change in method was due to the anxiety to avoid disturbing the national sentiment of the foreign country and the vested interests of the existing banks whose jealousy and antagonism would soon be roused. Method (a) is being openly pursued by the Imperial Banks and the Empire Banks in all those countries where political power and economic penetration cannot be openly resisted by the colonies or undeveloped regions belonging to the Empire. The major Imperial Banks of England, France and Japan have branches in the colonies, spheres of interest and mandated territories. Method (a) is now being attempted by the big American banks with a view to get themselves represented in the big financial centres as London, Paris and Berlin so as to be able to afford all-round banking facilities (including tourist traffic) to their customers.

France pioneered the way in adopting method (c) and in the Central and Eastern European countries banks were revived by the foreign capital lent by such affiliations. The resurrection of the Wiemer Bankverien is an instance to illustrate this tendency. Great Britain pursues the self-same tendency and has established the British-Italian Banking Corporation which conducts its business through its allied institution the Banco-Italo-Brittanica. The big five with the exception of the Midland Bank have also adopted this procedure.[11]

Indian trade in the Far East can be developed by adopting this method and enrolling the services of foreign banks to help the Indian banks interested in extending the export trade of the

[11] See A. J. S. Baster, 'The Imperial Banks,' Last Chapter entitled the Integration Movement.

country. The big selling units of the major staples should request their banks to bring about such a desirable innovation and the financing portion of their business, the selecting of reliable foreign merchants to act as agents for the sale of goods and a reliable knowledge of the state of credit and domestic circumstances can be secured through such a channel.

Banks and Speculation.

It is oft stated that "John Bull can tolerate anything else except a two-and-half per cent bank rate.' He would fall a prey to speculation during the days of such artificial prosperity. It is part of human nature to forget the lessons of the past. When too great indulgence in optimism and speculative ventures is taking place a sharp rise in money rates would be no successful antidote and any manipulation of the bank rate is apt to fail. Danger to business stability would result out of such an injudicious attempt. The exuberant temper of a speculative community will not fail to respond to a sufficient stimulus in the way of cheap and easy money arising out of a glut of savings. The banker's duty is to attempt to deflate speculation if possible by drawing a difference between the speculative and the legitimate borrowers, viz., pursue a careful policy of loan rationing. This laudable attempt to supply the vital and essential needs of society at the old favourable rates would certainly be defeated by the re-lending of bank credit at higher rates to the speculators or if "outside" money were to be lent to the brokers for speculative purposes.[12] A differentiating and discriminating rate attempting to penalise speculation would not go a long way in checking speculation. The virtue of attempting to protect the innocent and penalise the offender under-

12 It failed as a result of the influence of the bear contingent, an increase in unemployment and reports of poor earnings for 1927. The raising of the bank rate undoubtedly gave the first blow to the speculation bills. The high rediscount rates and the credit control policy tended to make the bills "reel and feel groggy but the knockout blow" came as a result of the above set of circumstances.

lies this attempt to ration credit in an intelligent manner. Whether it would succeed in checking speculation or not, it becomes inevitable in some form or other for an all-round rise of the money rates would only result as the well-known paper the "Economist" puts it, "in penalising the innocent without troubling the guilty." Every other method would be equally futile. Moral persuasion on the part of the Central Bank, its open market operations and differential rediscount rates and the cutting off of foreign bank funds from the money market by the curtailing of private lending in the Wall Street by the New York Clearing House have all been tried and found wanting. They proved futile as the "boot-leg money" placed by the Corporations served to stimulate speculation and the cardinal lesson which the recent American speculation crisis so admirably teaches us is that the bank's discount rate is not all-powerful to check the rise in prices or turn an unfavourable exchange rate to a favourable one or restrict the creation of abnormal credit or check speculation which might be engendered by some cause or other. This is what present-day American banking policy teaches us. Speculation has been aptly compared to fever and like fever it must cure itself.

Another grave lesson which the recent wave of speculation in America can teach us is as follows. The American banks suffered greatly on account of embezzlements on the part of the Bank officers. The stolen bank money was usually lost by selling short in the bull market. The Bank tellers, who were the chief offenders, failed to place funds deposited during the day and the higher executive officials engaged in the same kind of business could not hope to check the actions of the bank tellers.

Quite recently we have come across instances of embezzlement of bank money in our country on the part of the bank officers. Such unfortunate moral delinquencies arise in every country and are solely due to the attempt on the part of the Bank officers to live beyond the means of their income or downright dishonesty or speculative gambling with the help of bank's money.

Insufficient salaries and the attempt to start outside business in addition to bank duties or other unfortunate hardships generally account for most of the cases of bank embezzlements. The only practicable manner or way of combating this dreaded evil is to appoint responsible officers, only after a thorough investigation of their past history of them. These can be bound down to furnish sureties. Periodical audits by recognised and capable auditors and the introduction of mechanical appliances to do accounting work would go a long way in eliminating these dangers. Internal audit on financial transactions would be useful and enable one to detect the defalcations early. This is what American banks failed to do and that is why they suffered to such an extent by the huge sums defalcated by the bank clerks. Indian banks ought to understand this much from the recent wave of speculation in the American stock market.

Banks and Publicity.

The Indian banker must give up his attitude of dignified silence. He should no longer be a silent observer of public affairs keeping his pulse on them but it is not mere talking for public edification that is essential. He should step into the public arena and begin to educate the public by his illuminating addresses on trade, and economic circumstances of the country. The practice of the Bank Chairmen of the " Big Five " has to be emulated. They should not only answer all enlightened or mischievous criticism of their actions but point out the paths by means of which industries can get rid of their difficulties. Besides long and interesting statements of the business of the banks, an intelligent commentary on private economy, public finance and credit and important financial events having world-wide significance should be found in their annual reports.

Similarly, the Central Bank of this country should issue informing balance-sheets and now that the " paragon of conservatism "—the Bank of England which could dare to defy public

opinion so long and continue publishing enigmatic balance-sheets for nearly three-quarters of a century has come forward to publish informative balance-sheets, the case for publicity receives undisputed strength out of its action. The amalgamation of note-issues has proved to be a significant achievement in several directions. The most important thing is the issuing of a bank return supplying additional information. As the Right Hon'ble Reginald McKenna says, "In the return of the Banking Department the total of the British home bank balances, hitherto undisclosed, is now shown separately as a part of other deposits while 'other securities' are divided into discounts and advances and securities. These items as the records increase in length and as experience is gained in their utilisation will add materially to the value of the statement for short and long-term purposes."[13]

Banks and the Exchange Market.

It has now been recognised in all countries that a forward exchange market is essential for exchange stability. Abnormal methods of controlling exchange rates have been found to be ineffective. The stabilisation of exchange is a thing that tends to establish itself and without such stabilising conditions it is impossible for a long time to restore sound conditions. In the advanced countries the perfection of the forward exchange market has become so complete that it actually dominates the spot rates and in case of the sterling-dollar rates we witness such a phenomenon. The widening of the exchange market, the specialising nature of the exchange brokers and the necessity on the part of the merchants to realise that it is wise to eliminate exchange risks apart from trade risks are the predominant factors in the case of an established forward exchange market.

13 See "A Picture of World Economic Conditions at the Beginning of 1929," p. 103, issued by the National Industrial Conference Board of the U.S.A.

The financing of foreign trade itself must be done with domestic funds and it is the bounden duty of the Central Banker to indirectly secure this ideal through the intervention of the existing joint-stock banks or those specially created for that purpose. Both the United States of America and Japan, the latter to a less degree than the former, have succeeded in developing suitable banking machinery to finance their own exports or imports with the help of domestic resources.

Banks and the Investment Market.

The perfection of the investment market in almost all advanced countries is a patent fact. America, Japan, and Germany stand as outstanding examples of recently organised banking systems where much attention is being paid towards the mobilisation of the domestic capital resources of the country and the investing of the same in safe and remunerative channels by special institutions known as investment trusts and these divide the risks by spreading the investment over a wide area and thereby better outturn than what a single individual however enlightened he might be in the art of securing safe investments for his capital can hope to do. The increase of capital is not the main problem but the safety of the existing capital is the sole criterion. Circumstances might force us to borrow in the foreign countries but the rebuilding or renaissance of the domestic investment market must not be forgotten. The creation of an organisation for the mobilising of the domestic capital resources should not be postponed any longer.

Applications of these lessons to India proper.

While some of the salient lessons underlying the discussion have been pointed out already it is essential to frame permanent reconstruction of our banking structure in the light of the most important of the above conclusions. It is assumed that the formation of a Central Reserve Bank and the creation of an elastic rural credit system are indispensable parts of a larger problem,

namely, the reform of the entire banking structure. Everywhere else, the bank note-issue, i.e., bank currency forms an integral part of the credit structure. Our plans of banking reconstruction have to be worked out more or less with reference to the plan adopted for the currency reform.

It is difficult to imagine how banking reform can be accomplished without empowering the Central Bank to issue elastic notes which form no meagre part of the total volume of money in the country. Considering the advisability of making bank notes rise or fall in response to the needs of business the first item of our banking reconstruction is to deprive the Government of its control over note-issue. The issue of new notes must be in the hands of a Central Bank. Observing the favourable experience of other foreign countries with asset currency it is essential to issue notes based on the assets of the Central Bank. To ensure confidence in the minds of the public they might be Government-guaranteed notes but they must be directly issued by the Central Bank. The asset backing for the notes may be gold and collateral paper such as commercial, agricultural and industrial paper. The proper combination would be 50 per cent which happens to be the prevailing law in the matter of our paper currency organisation. Having the privilege to issue notes based on gold or commercial paper it can be left to the discretion of the Central Bank to issue notes either on gold or commercial paper as the management thinks it proper to do. The form of eligible paper might be—

1. Notes, drafts, bills of exchange or acceptances issued or drawn for agricultural, commercial or industrial purposes and rediscounted by commercial banks at the hands of the Central Bank.

2. Open market operations or purchases by the Central Bank consisting either of bills of exchange indorsed by a joint-stock bank or of banker's acceptances, which at present do not exist to any extent.

3. Notes, drafts, and bills of customers drawn for the purpose of carrying or trading in bonds and notes of the Government

of this country or the United Kingdom and rediscounted by the Central Bank.

4. Promissory notes of the commercial banks to run not exceeding three months secured by (a) commercial paper eligible for rediscount, or (b) Government securities.

Such terms of note-issue which have been outlined above would undoubtedly confer the needed elasticity required by either business or Treasury finance.

To meet sudden emergencies this law can be suspended and additional note-issue can be permitted on the payment of a graduated tax. The discount rate at such times must be made to rise by an amount equal to the tax paid by the Central Bank. Such provisions will satisfy the needs of a crisis or any unusual emergency. Automatic contraction can also be provided for by the increase of tax and discount rates. By this feature we are incorporating the German and the English devices of creating excess issue to meet emergencies.

The redeeming of these notes at the Central Bank or the Treasury must now be discussed. Both in the pre-war France and the United States of America the Central Bank had the power to pay the notes in gold or silver as in France and gold or lawful money as in the U.S.A. In the future when gold shortage is to be an accomplished fact the concentration of gold in the central reserves would be highly useful and a provision of this character would be highly useful in protecting the gold stock in extraordinary times. While this privilege would thus be helpful the question of keeping notes at parity with gold and speedy exchange of notes for gold or gold for notes should not be interfered with in ordinary times.

As the general public of our country do not understand the subtle distinction between legal tender and optional tender it is better to confer the legal tender quality on the notes of the Central Bank. It is undoubtedly true that a proportional note-issue has the possibility of inflationary demand attached to it and to

curb this tendency the legal tender privilege for private debts might be denied as has been done in the U.S.A. But even there banks and the government exchange the notes for lawful money at their full face value.

Coming to the actual measures needed for securing automatic retirement of notes which is so essential for contraction purposes it must be borne in mind that the issue of the One Rupee Note makes it difficult to insure prompt retirement. Large denomination notes would generally float back to the Bank easily but the smaller denomination notes generally are not retired early. The conferring of the legal tender quality would again stand as an impediment to the prompt retirement of the notes. Even banks would be holding these as part of their legal tender reserves. Although the F. R. notes are not legal tender yet these are not issued below denominations of five dollars. As inter-district movement and payment of them by another F. R. Bank other than the issuing bank is subject to the penalty of a 10 per cent tax the feature of automatic redundancy is supposed to be completely effective and to reinforce it special powers are conferred on the F. R. Banks to refuse rediscounts to member banks and compel them to repay old borrowings by returning currency, i.e., notes. The F. R. Board has the power to levy interest tax on note-issue backed by non-gold collateral. Next, the rediscount rate may be raised by the F. R. Board, if it finds the note-issue over and above the legitimate demand requirements of business. Lastly, it employs the open market operations on the part of the F. R. Banks to bring pressure and compel the safe retirement of these notes. Thus the chief lesson one has to learn is not to place blind faith in the doctrine that notes find an outlet only when there is legitimate demand for the same and nothing in the direction of enforcing note-retirement is essential. Although notes generally find an outlet through business requirements alone, the necessity to automatically retire these notes as soon as the requirements are satisfied is often overlooked and at such times the Central Banker

must be endowed with power to exert pressure on the ordinary banks and secure contraction of the notes. But unfortunately this side of the note-issue provisions which is meant for contraction purposes is often neglected. It is not enough to merely lay down regulations checking monetary inflation through note-issue. Just as elasticity should be secured whatever the state of the gold stock might be, so also the contraction must be managed with a view to save the community from excessive and highly inflationary size or amount of the note-issue. These are the principles on which the note-issue of our Central Bank should be managed and without having an elastic note-issue in its hands which does not at the same time lead to monetary inflation, satisfactory rediscounting of the eligible and qualified paper would be sometimes impossible and the genuine credit demands might not be satisfactorily complied with.

Bank Rate.

It has already been laid down that a lower and more steady bank rate than the present one should be the ideal aimed at. Considering the last half-year's (ending Dec. 31, 1929) bank rate, the average was 5·788 per cent as against the previous half-year's average of 5·456 per cent. It would indeed have been higher if trade demand had been felt. Depressed trade and the stagnant industrial situation in the cotton industry of Bombay and the slowly falling prices of country produce needed lesser finance than as usual and there was no borrowing of emergency currency from the Controller of Currency at any time. The seven per cent bank rate reached in October, 1929 would not have been imposed on the banking system but for high bank rates ruling abroad and the investment of Indian money abroad. The heavy treasury bill borrowings must also have told their tale in this matter and raised the bank rate to seven per cent. One unique feature however

was the low money rate prevailing in the money market in spite of the above advance in the bank rate.[14]

This situation would necessarily have to be changed as soon as the Central Bank assumes charge of the currency and credit policy. This Central Bank should remove the influence of the Government on the bank rate. Any undue raising of the bank rate to eight per cent as was done by Government pressure would have to be checked. The present-day peaks and valleys of credit fluctuations would be smoothed out as a result of the Central Bank's operations. Its true financial wisdom would enable it to stand prepared for unforeseen, abnormal and unexpected contingencies though they may be purely non-Indian in origin and character. With the successful financing of the Treasury's requirements by the policy of Ways and Means Advances one reason for unduly pushing the bank rate to a high level would be removed. With an elastic note-issue the seasonal requirements can easily be satisfied at a steady level of the bank rate. Change in international finance would undoubtedly have a repercussion on the Indian money market. The best way to meet such abnormal contingencies is to provide the shock-absorber—the Central Bank.

Lacking absolute autonomy and devoid of sufficient resources the Imperial Bank could not withstand any of these extraordinary shocks. Neither the internal situation nor the complications arising out of international financial stringency could be satisfactorily handled by the Imperial Bank. Often when trade demand was acute the cash balances used to reach a low figure of thirteen per cent.[15] The issuing of emergency currency at such times against *ad hoc* securities or the transfer of the Home Cash Balances to the Indian counterpart by placing sterling securities in the P. C.

[14] See the Half-yearly Report of the Imperial Bank ending December 31, 1929, published in the Englishman, February 3, 1930.

[15] The lowest record to which the cash reserve of the Imperial Bank has ever fallen was 9 per cent.

Reserve and issuing P. C. notes against the same thus augmenting the Government cash balances in the hands of the Imperial Bank or the manufacturing of bills to secure their rediscounting at the Controller's hands was often resorted to on several occasions. These medieval methods of finance have to be scrapped as early as possible. It is high time that the seasonal emergency or cyclical or secular and abnormal needs are properly looked after. All Central Banks are now armed with the privilege of note-issue and their purposeful credit policy even in normal times is so directed as to enable it to tide over the cyclical period with the least possible disturbance. Seasonal needs can be adequately provided for by mere expansion of book-credits, i.e., deposits and notes and no penalty bank rate is ever inflicted on the businessmen. The proportional system of note-issue which is backed by commercial paper can duly empower the Central Bank to meet the needs of seasonal as well as cyclical emergencies. But no modern banking system is being so managed at present as to secure the secular stability and stabilise prices in the long period. In an abnormal contingency as war all the three expedients of loans, external as well as internal, the screwing up of the rate of taxation and the resort to note-issue would be inevitable. The more costly the modern war is the more effective must be the three methods of war-finance.

Difficulties of Open Market Operations.

It would be mere folly to minimise the real dangers which the Central Bank would have to experience in the early days of its existence. The financial good that it can hope to render would not be very prominent from the very beginning. The immediate changes that it would bring about must be studied. It would necessitate the transfer of note-issue powers at present exercised by the Government of India.

Secondly, it would involve a cataclysmic change so far as rediscounting of *hundis* or " manufactured " bills by the Controller

is concerned. The rates charged for this rediscounting have varied from six to eight per cent. To substitute merely for this purpose a Central Bank would be unnecessary for oftentimes there had been no such rediscounting at the Controller's hands even at the time of the busy season. During the present season (February, 1930) there has been no creation of this emergency currency thus far. Money rates are easy and though up-country demand might be felt sooner (February, 1930) or later it is quite likely that this demand would not be made by the Imperial Bank.

Thirdly, the lack of a discount market and the absence of a bill habit need not be commented upon. But unless a Central Bank helps this process of perfecting the short-term money market, the development of the same would never take place within a reasonably short time.

Nextly, the demand for loans in an agricultural country would be inelastic and discount rates can never hope to exercise effective control over the situation. As at present the bank rate of the Central Bank would be a mere symbol devoid of any real significance. For some time to come that would be its fate.[16]

Another reason pointed out elsewhere is the opposition of the Exchange Banks who would not curtail their dependence on the London Money Market either for rediscounting their bills or for investing their liquid resources in the short-term money market of London.

Still another dominating factor delimiting the usefulness of the Central Bank should be stated. Even in the advanced countries it is now being realised that immediate stabilisation of prices or business would not be forthcoming out of a judicious use of the bank rate or open market operations. Considering the "agricultural lag" fluctuating or changing price-levels would have more pronounced effect on the farmers than on the industrialists. How-

16 See the Section on the Future of the Foreign Exchange Banks—Part of my written evidence before the Central Banking Enquiry Committee.

ever much the need for benefiting the farmer by means of a stable price-level might be felt still in actual practice it cannot be realised without other helpful factors co-operating with the Central Bank in improving the situation.[17] The new gold standard itself is the best regulator of prices and any conscious stabilising of internal prices would mean continuous rigging of exchange up and down with reference to movements of world prices. As the different countries of the whole world have rejected the policy of stabilisation of prices by adopting a managed currency and have returned to the new gold standard the objective aim of this country should be to return to this new gold standard and consider it as a good enough measure for regulating prices.

If these are the real objections to the successful working of a Central Bank it can be pointed out that the main reasons why a Central Bank would be necessary in this country can be stated under three broad headings.

Firstly, the monopoly of the foreign exchange banks has to be broken down by helping the competing local exchange banks.

Secondly, it would prevent a recurrence of the 1913—1915 banking crisis. This prosperity crisis was due to capital being lent through banking channels for industrial purposes. When the knock came they found themselves in a peculiar situation and no one was willing to help them. Their inevitable collapse brought down a number of banks. The presence of a responsible leader rendering discriminating help could have saved some of the solvent banks. No worthy lead was given by the Presidency Bank of Bengal even though the Government was willing to grant aid. The lessons of this crisis unfortunately were lost and no tangible good, immediate or deferred, resulted out of this crisis. No amalgamations, no purification process, no reconstruction

17 The success of the open market operations of the F. R. Board is much exaggerated and the helpful factors which pulled in the same direction are forgotten. See Lawrence, "The Stabilisation of Prices," p. 472.

schemes such as those which followed the Australian Crisis of 1891 to 1893 have resulted.

Thirdly, an orthodox Central Bank whose functional simplicity might be rigidly adhered to would facilitate and improve the remittance business of the Government, provide the rediscount facilities for the commercial banks, manage the currency and credit system of the country and perform Government business on strictly intelligent principles. The most important innovation would be the rediscounting of *hundis* by the joint-stock banks which is now considered as a weak sign and not resorted to by them.

This would enable the spread of the banking net far and wide. It would increase the scope of the Central Banker to exercise his power over the entire banking field. The slow popularising of the credit instruments, the encouragement of the deposit habit, the training of men fit to run banking institutions and the efficient handling of the banking system during the times of a crisis would be some of the immediate beneficial advantages arising out of a Central Bank of Issue. But to secure even these simple benefits it has to fight against tremendous odds the most prominent of which are popular apathy and ignorance and the jealousy of the foreign exchange banks. But if it pursues a bold active forceful and energetic policy there is no reason to doubt that it will eventually occupy its rightful place in the Indian money market as the corner stone of its currency and credit system.

THE CENTRAL PROBLEM OF INDIAN BANKING

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SUMMARY

1. High interest rates are a great impediment to the growth of industry and enterprise in India, and keep down the standard of living. There is a wide disparity between the bank rate and the market rates and the bridging of that gulf is the central problem of banking in India.

2. There is no use putting the blame on the indigenous bankers or the Imperial Bank: the remedy lies in changing our methods of business, and enabling our businessmen to obtain funds on easier terms.

3. Our present methods of business are dominated by 'cash-credits' and 'open accounts'; and the provision of marketing credits is meagre. These methods must be replaced by the use of bills of exchange, drafts and pronotes, which may be discounted and rediscounted according to the needs of business. Standardized hundis, independent warehouses, discount-houses and bill-brokers are all necessary for the functioning of a proper reserve bank and a well co-ordinated rediscounting system.

4. The Reserve Bank must provide also for agricultural credits, mainly through the co-operative movement. The rediscounting of agricultural paper bristles with difficulties, especially in India, but these difficulties may be got rid of by a stiffening of co-operative methods and tightening of co-operative machinery. The experience of U.S.A. and France is encouraging in this matter.

5. The developments envisaged above are not too premature for India. With some modifications the existing machinery could be brought into line with modern banking systems.

(1)

One of the fundamental causes of the economic backwardness of India is the high price that Indian traders, manufacturers and cultivators have got to pay for the use of capital. The high rates of interest obtaining in this country make the cost of production high and leave the entrepreneur, be he millowner, handicraftsman or farmer, such a small margin of profit that there is no great incentive to increased production. In the case of a large proportion of cultivators, the produce harvested is hardly sufficient to pay the moneylenders' dues, and as for artisans, they, in a real sense, work for the sowcar. Even the millowners and merchants, especially the smaller ones, have to pay much higher rates of interest than their compeers abroad. Short-term credits are difficult to obtain, and when obtained the terms are often unreasonable, if not exorbitant. The Bank Rate may be 5 per cent or even as low as 3 per cent but the average businessman has to pay about 9 to 12 per cent and the average farmer and handicraftsman anything between 12 and 24 per cent for their short-term credits; and town labourers usually raise loans on such exorbitant rates as 37½ per cent and 75 per cent per annum. In these circumstances, it is no wonder that trade and industry are growing at a snail's pace in this country and our economic resources remain undeveloped.

This has other repercussions, both economic and social, of a far-reaching character. Owing to the high toll levied by the moneylender and the low productiveness of industry, the Indian agriculturists and handicraftsmen—and they constitute the great bulk of our population—have to keep their standard of living at the barest minimum of subsistence. The great majority of them hardly eat one square meal a day and live in thatched huts wearing scanty clothing, and with very few possessions that they could call their own. What can be the purchasing power of such a poor people? India claims nearly a fifth of the world's population,

but the *per capita* purchasing power of those people, I venture to say, is not even a fiftieth of that of an Englishman or an American. Indeed in the statistics of world trade, India is assigned the sixth place among the nations but it has hardly any significance when we take the size of India into account. What can be the real economic status of a country whose *per capita* income is but £8 at the highest computation?

It is clear therefore that unless India produces more per head and thereby raises her purchasing power and her standard of living far above the present low level, no real economic advance is possible; and so long as manufacturers and cultivators have to pay exorbitant prices for the use of capital they will never be able to increase the yield of their farms and workshops in quantity or value, and the purchasing power of the masses is bound to remain low.

Now, what is the cause of these high rates of interest? Is it due to the dearth of capital? In spite of the still deep-rooted inclination to hoard money and keep capital locked up in ornaments and landed property, there are yet indications that we have ample, if not abundant, financial resources in the country to supply the credits needed for our trade, industry and agriculture, and if this is supplemented by the cash balances and other resources of Government, there is no doubt that India could supply herself without external aid all the short-term credits usually required in the country. The loans floated by Government in the last few years have demonstrated that there is in India a fairly large accumulation of capital seeking investment and that the apparent shyness of capital is rather due to the lack of appropriate channels for investment than to any deep-rooted antipathy towards liquid investments. For the person who wants to keep his capital in a readily realizable form, the choice of securities within the country is so limited. There is today a growing class of professional men and landowners, even artisans, who realize the value of such investment, and with

increased propaganda and the provision of better facilities, that class may grow considerably and a large capital market may take shape in this country. But this class now invests only within a limited range, and their capital hardly serves to finance the agriculturists and manufacturers of the country and even traders obtain only a very limited benefit from them.

The result is the wide disparity that obtains between the bank rate and the market rates in this country; and the smoothening of that disparity is the central problem of banking in India.

(2)

It is customary to put the blame for high interest rates on the bankers and moneylenders who accommodate the traders and agriculturists of the country. We often hear of Shylock demanding his pound of flesh, the mahajan tyrannising over his debtors; but this is only one side of the picture. Indeed it must be admitted that the Indian sowcar charges for his capital higher rates than his compeers in any civilized country, and in a good many cases his profits are great. But when we consider the risky nature of much of his business, the delays and expensiveness of the legal process, the statutory restrictions on the transfer of land, the vicissitudes of seasons, and wide fluctuations in the price of produce, we may realize that the indigenous moneylenders and bankers are at present struggling against odds, that they are rendering a service to the community which in the present circumstances no other agency is capable of rendering. While the rates charged by them look high on paper, their net takings are often, unequal to the energy they put into the business, and in spite of the rise of co-operative societies and indigenous joint-stock banks, they are still shouldering practically the entire burden of credit supply to the ordinary folk. Out of the estimated total agricultural indebtedness of about Rs. 1,000 crores, the co-operative movement supplies not more than about 35 crores.

More often, the blame is laid at the door of the Imperial Bank. There is no doubt that the too conservative policy of the Imperial Bank prevents the banker and the businessman from getting all the credits that they need and their position warrants, and that this restriction of credit coupled with the extensive government borrowings of recent years have made money dear for trade and industry in this country. It is also true that the marketing credit offered by the Imperial Bank is hedged in by many restrictions which stultify the benefits of that provision in the case of those classes of the community that stand most in need. But so long as the Imperial Bank is bound by the present charter, it has got to restrict its activities within a narrow field; there is a fixed time limit beyond which it cannot provide credits; it could discount only such bills as satisfy certain minimum requirements and its marketing credit is only available to those who deposit goods with it or who assign to it documents of title to goods. Perhaps in the present circumstances of the country, such restrictions are more or less necessary for safe banking; and even the Reserve Bank, when it is founded, may not be able to make any radical modification of many of them. The practicable remedy therefore lies in enabling our businessmen to adopt such business methods and provide themselves with such securities as will satisfy the banks and enable them to advance more freely.

We have to remember in this connection that the Imperial Bank is not a proper central bank, but only an ordinary commercial bank doing banking business for the State, that although it tries to control credit by manipulating the bank rate, such control is ineffective as it has no control over currency and as even the indigenous bankers are not always bound to take the cue from it. Herein lies the root cause of the disparity between the bank rate and the market rate. So long as the control of credit and the control of currency are vested in two different authorities and so long as the control of credit is vested in a commercial bank which only partially controls the capital market

of the country and which has no direct mission for the economic improvement of India, there is practically no way out of our present difficulties. There is only one radical remedy to this and that is the establishment of a central Reserve Bank, which will be the coping stone of the financial edifice of the country. Such a Reserve Bank must be entrusted with the regulation of the currency as well as credit and must hold the reserves of other bankers and of Government. Only such a bank will be able to effectively control the interest rates and handle the credit situation.

Indeed the establishment of a proper reserve bank with adequate powers and safeguards will provide a coping stone for the financial edifice, but it will only be the coping stone. The building has got to be first raised before we place the coping stone in the proper place. We must have the groundworks, the masonry, the wood-works and all these must be properly adjusted. We have many scattered pieces, and some of very good workmanship, but they require to be put into shape and must be brought together and fixed up to form the body of the building. The very foundations are not firmly laid down; and that would be the hardest of our jobs. We require an adequate number of member banks all over the country, a growing stream of savings receiving tributaries from country and town, a regular flow of negotiable instruments of the proper kind and accepting houses and bill-brokers to deal in them; and above all we must develop in the country such habits, standards and methods of business as are necessary if banking transactions should proceed on their normal course. In all these, considerable modifications and adjustments are needed to bring our existing machinery to function efficiently for the aim in view.

(3)

We will now analyse our present methods of business. The larger industrial concerns obtain their credits from banks in the shape of overdraft or cash-credit on the security of letters of

hypothecation on goods. This practice is not generally agreeable to the banker as the goods are in the possession of the borrowers, and as such loans are not a quick asset; and naturally banks restrict such credits within a narow circle of highly reliable customers. As for the smaller manufacturers, this channel is closed for them and they have to be content to borrow from indigenous bankers or moneylenders at high rates of interest. Traders could raise credits on the security of produce, but banks insist on such produce being deposited in their own godowns under the control of their own staffs, and as this is regarded as derogatory by substantial merchants, they have often to sell their goods at unprofitable prices and in a depressed market. Agriculturists do not get even such facilities. Before the produce is harvested they are already deeply indebted to the sowcar or mandi merchant and they have to sell the produce immediately after harvest, often on the threshing floor; and as is well known, produce markets especially grain markets, are particularly depressed immediately after harvest. The very methods of purchase and sale in the country are unbusinesslike. Sales are generally made on the 'open account,' and therefore the seller has got to wait till the buyer is ready to pay up, and in no way could he convert his 'book account' into cash.

All this is inconvenient, wasteful, antiquated; and the whole machinery must change, if the modern banking system is to function unhindered. A well-devised system of trade acceptances must link up the different sections of the business community. In all civilized countries, the mechanism of exchange today works with the help of bills of exchange, drafts and pronotes. Before they reach maturity, these negotiable instruments may change hands several times, being discounted and rediscounted by bankers, and this makes monetary resources mobile, and enables them to do more service in exchange than otherwise they could. So long as sales are on the 'open account,' and notes and drafts are not discounted, monetary supply will remain inelastic and business is

bound to be sluggish. The Reserve Bank can only function with the help of such media. All borrowing for business purposes must be through some negotiable instrument, which may be rediscounted in case the lender wants to transfer his claim to some one else.

Of these negotiable instruments, the bill of exchange is the simplest and most self-liquidating, as it represents an actual sale whether within the country or outside. It may be a sight-bill or a usance-bill, but in either case it will liquidate itself automatically in a well-ordered business community. Especially when the bill is accompanied by a bill of lading or other supporting documents, it becomes a first class negotiable paper; and in the case of usance bills can be discounted and rediscounted, and may change hands any number of times. Marketing credit is also provided by means of negotiable instruments, a draft or note secured by warehouse receipts and other documents of title to goods. Such goods must be non-perishable, readily saleable and must be stored in *pucca* godowns. If so arranged, these instruments will function nearly as automatically as trade bills and will be an effective means of avoiding forced sales and depressed markets.

In India today, bills are used more in foreign trade than in inland, and that is perhaps because discounting facilities are more abundant in the former than in the latter. Hundis of various kinds have always been used, but a good number of them are accommodation bills; and even when they represent a genuine commercial transaction, the joint-stock banks are reluctant to discount them. As Sir Henry Strakosh has pointed out, inland trade bills need not always carry with them supporting documents, and it is not in all cases convenient to supply such documents, but whether this caution of the banks is justified or not, they are not likely to give it up till a Reserve Bank will arise and initiate a new policy. Trade acceptances in general are impeded by the lack of proper warehousing facilities in the country and by the insistence by the joint-stock banks that produce should be deposited in their own godowns, and their reluctance to liberate goods piecemeal,

Thus, being denied access to the Imperial Bank and other joint-stock banks, the ordinary businessmen of the country resort to the shroffs who either lend them their own money or money which they raise from the banks by discounting Hundis. The shroff does not play the rôle of a bill-broker or an accepting house, and as his risks are often great, large profits accrue to him. But why should there be such risks? and why such burdens on industry and trade?

If the rate of interest should fall in the country and if the Reserve Bank (when founded) should serve the interests of the Indian business community, various modifications are needed in existing banking machinery and methods of India. I shall here mention only a few.

1. The cash credit method of financing must be discouraged.
2. The Hundis must be standardized and transformed into genuine trade bills which may be discounted with the banks; and the duties on them must be reduced, so that their use may become more popular.
3. Independent warehouses must be established at suitable centres and they must issue certificates of title.
4. There must arise accepting and discount-houses and bill-brokers to deal in bills. The Multanis and other shroffs could with advantage transform themselves into such if proper encouragement is given.
5. Joint-stock banks must open more branches in the country or take local bankers into partnership with them on the Kommandit principle, and these banks must keep their reserves with the Reserve Bank.

All these will create a growing discount market in the country. The businessmen will create drafts of all kinds, the accepting houses will accept them, joint-stock banks will discount them, and bill-brokers will arise and deal in them. If thus a discount market

will arise in the country, the bank rate will then become more effective, interest will fall, and the Bank will be able to control more effectively the credit situation in the country.

Except in Great Britain, discount-banking is of recent growth. Even in the United States, where the system has lately become most developed in all its ramifications, there was a positive antipathy to rediscounting before the Federal Reserve system came in 16 years ago. There were large numbers of small banks operating in the country, but they were averse from discounting their notes, and having not been connected with the central money market—each bank depending mostly upon local resources—interest rates were as high as 10, 12 or even 15 per cent in some districts, while in towns much lower rates prevailed. The Federal Reserve Bank Act of 1913 remedied this defect by providing a national discount system, which enabled country banks to become members of the Federal Reserve system and obtain abundant rediscounting facilities.

We have to develop on the same lines in this country. Our methods of granting credits must change if our businessmen are to fully avail themselves of the resources of the Reserve Bank. Cash credits and 'open account' transactions must be reduced in volume and in their place must come in trade acceptance credit with the proper negotiable instruments and supporting documents. The shroffs and other indigenous bankers who today lend to businessmen will have more amplified functions in the new system. By centuries of specialization in banking, they have garnered valuable experience of the habits and needs of Indian businessmen, and by adapting themselves to the needs of the discount-banking system, they will be able to perform a more serviceable function, and one which, I think, will be more profitable to themselves. In this way the two uncoordinated parts of the Indian money market can be brought into organic touch and made to co-operate for supplying the credit needs of the country. Indian capital will thus become mobile and will divest itself of its proverbial shyness,

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In Western countries, the central banks are intimately bound up with industry and trade, but in a country like India, it is but meet and proper that the central bank should also make provision for the short-term needs of the agriculturists who form more than 70 per cent of the people. There is no doubt that co-operation is the right channel for the supply of short-term credits especially to agriculturists, and it must be admitted that in most Indian provinces at present no lack of funds is complained of by the co-operative movement. Let us not forget, however, that this seeming sufficiency is not because all the credit needs of the ryot have been met, but because co-operation is meeting only a small part of his legitimate credit needs, and if co-operation is to become really serviceable it will have to extend its business. This is only possible if we connect the co-operative banks with the central money market of the country.

In this, too, we may learn a lesson from the Federal Reserve system of the U.S.A., which helps agriculturists by providing special facilities to their co-operative marketing organisations and by including among 'eligible' paper (i.e., paper acceptable for discounting at the Federal Reserve banks) not only bills, notes and drafts secured by documents of sale or warehousing receipts, but also paper created for productive purposes by agriculturists.

Before the introduction of the Federal Reserve system, American farmers used to raise credits from country banks for periods ranging from three to six months on condition that (as in India) the loans were returned when the crops were harvested. Not infrequently, goods had therefore to be sold in a congested market. This defect was rectified by the Federal Reserve system, which provides for the granting of credits for six and nine months and thus enables them to market their goods in an orderly manner. Co-operative marketing associations have been given special privileges in the matter. According to the amendment of 1923, these associations are authorized to issue paper, which is eligible

for discount, with maturities up to nine months if the money is advanced to members for an agricultural purpose, or if it is used to pay members for farm produce delivered, or to finance the association in packing, grading, preparing for market or in marketing, products grown by its members.

The rediscounting of notes and drafts created for productive purposes is a special feature of the American system. The approved purposes include raising crops, purchasing implements and breeding animals. The usual period is six months, but in order to suit the needs of cattle-breeders, longer maturities have been granted for what is termed 'intermediate' paper which runs from six months to three years. Thus the Federal Reserve banks have become the sheet-anchor of agricultural finance by providing not only for short-term purposes but for intermediate credits so essential for cattle-breeders and for those who need expensive implements for cultivation purposes.

If in an industrial country like the United States, rediscount banking has been so warped as to be specially serviceable to farmers, what shall we say of India whose people depend so predominantly on agriculture? But, we have to take account of the fact that there is great difference between an American farmer and an Indian ryot in credit-worthiness, and this is not merely due to the disparity in the size of their holdings. Unlike the American farmer, the Indian ryot borrows much for unproductive purposes, is prepared to spend the earnings of a whole lifetime for a day's wedding feast, and keeps no regular account of his income and expenditure. The risks of crop failures are also much greater in a country like India. This makes it difficult for the Reserve Bank to become serviceable to the ordinary ryot, but the difficulty is not insuperable. What the ryot lacks as an individual the co-operative society could supply him. As member of a co-operative society, he must be in a position to raise produce loans and loans for cultivation and other productive purposes. The ordinary ryot may not be able to obtain produce loans from the joint-stock

banks, they being generally located in the larger towns; but the co-operative sale society of which he is a member may provide him with warehousing facilities and enable him to obtain marketing credits by the creation of suitable paper which will be rediscountable with the Reserve Bank or its branches. The lack of co-operative sale societies and proper warehouses within easy reach of the ryot now prevents such business being put through; and special assistance is needed from Government for filling this gap.

There is no reason why discounting facilities should be restricted to paper which is supported by instruments of title to goods already produced; agricultural paper may be created *for a productive purpose* provided the loan is properly secured. In the case of co-operative paper, it must bear the signature, not only of the borrower, but also of the primary society of which he is a member and of the financing central bank. Such three-name paper is now accepted for rediscounting, not only from the capitalist farmers of U.S.A. but from the peasant farmers of France; the *Caisses Regionales* (District Banks) and *Caisses Locales* (village banks) of France carry on a larger amount of short-term business in this line. The currency of the loan should be from six to nine months, so that the borrower may have time enough to market his produce in a profitable manner. Thus the co-operative system might be linked up to the general money market of the country and the Reserve Bank may be enabled to cater for the needs of the smallest agriculturist. Nor is this an innovation, seeing that, in the Madras Presidency at any rate, the Imperial Bank had allowed the co-operative banks an overdraft account of a substantial amount on the strength of co-operative paper; and the recent partial withdrawal of this privilege was not due to its having worked badly.

In order to enable the co-operative banks to take upon themselves such a responsibility, it is necessary to tighten up their business methods. The deep-rooted habit of borrowing for unproductive purposes, the mounting up of overdues, the moribund

condition of several of the primaries, the popular view which looks upon co-operative societies as agencies for borrowing—all these are serious impediments in the way of making agricultural paper rediscountable with the Reserve Bank. These must be counteracted by a careful reorganisation of the methods of advancing and recovering loans. The village sowcar, who knows intimately the conditions of the ryot, seldom lends without a hypothecation of crops (it may be verbal), and he gets himself repaid on the threshing floor. This is what the sowcar has learnt by experience, and there is every reason why we should utilize his experience in this matter. The sowcar may be utilizing such experience for self-interest, but the co-operative society must employ the same for the good of the ryot. If loans are to be properly and punctually repaid they should only be granted for productive purposes and be granted on condition that the borrower's produce is warehoused and marketed for him by the co-operative sale society. This supposes the existence of a sufficient number of godowns at all convenient centres and properly managed sale societies to market the produce so warehoused. The risks of crop failures must be reduced by irrigation and crop insurance, and the ryot must be encouraged to adopt improved methods of tillage and to keep regular farm accounts. It may be noted that the English Agricultural Credits Act of 1928 insists on the loan being a charge on the crops or other property hypothecated and the borrower is prevented from disposing of such property as he pleases.

There is no reason why some such facilities should not be given directly to substantial landowners and farmers who carry on cultivation scientifically, provided the same precaution is taken in regard to them and provided also that the paper is endorsed by recognized banks or bankers; but it will be many decades before the rank and file of Indian cultivators will deserve such treatment.

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The one conclusion emerging from the above survey is that the sure remedy for high interest rates and other allied evils

of our financial machinery is the establishment of a Reserve Bank, which will facilitate the growth of a rediscounting system of banking, control currency and credit alike, and hold the reserves of other banks as well as of Government. Such a bank could expand credits or contract them according to the needs of the country. Fostered by such a central institution, banking facilities will increase not only in towns but in the country side and the present disparity between bank rate and the market rates will disappear and money will be available for all reasonable purposes by reliable borrowers at reasonable rates of interest.

It may perhaps be said that the development envisaged in this paper is premature for India, but when one remembers that discount-banking was unpopular in most countries till a few years ago, that even in U.S.A., till 1914, country bankers handled only one-name promissory notes, and regarded rediscounting as 'a sign of weakness and a flag of distress,' one may agree that India, in spite of all her defects, is not altogether unprepared for this reform. Our indigenous bankers have long handled such business, although in a crude manner. For the rest we have the assurance of so high an authority as Sir Henry Strakoch that without any very material changes, the great majority of Indian Hundis could be made eligible for rediscounting at a central bank, and that the Indian shroffs are already 'a most valuable nucleus for the establishment of a real money market in India,' and that with the establishment of a central bank, sheer self-interest will impel the existing banks and bankers of the country to adapt themselves to the needs of the new banking system and co-operate for the mobilization of the financial resources of the country. If such a practical financier as Sir Henry could confess to an "incorrigible optimism as regards the possibility of India adapting herself to a modern Central Banking System," I cannot see how the more enthusiastic and less experienced among us could resist the temptation. *Floreat.*

INDUSTRIAL BANKING IN INDIA

BY

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Ever since the publication of the Report of the Industrial Commission, there has been a growing demand in India for industrial banks on German and Japanese models but it is not realised that institutions doing industrial banking in these two countries are somewhat different in their scope and functions. Are the present conditions in India really suitable for the establishment of special banks confining themselves exclusively to industrial finance or of institutions doing commercial as well as industrial banking? Do we require industrial banks for large or small industries or for both classes of industries, for long-term as well as short-term advances or only for the former? What, again, should be the form and constitution of these banks? All these details have not yet been threshed out.

Industries in India may be divided into two broad classes: (a) cottage industries, and (b) organised industries. The former employ little fixed capital. Their financial requirements are mostly for short terms and may be best met by co-operative banks but where such organisation is not possible, the Director of Industries should, as suggested in the Report of the Industrial Commission, grant small loans and supply tools and plants on the hire-purchase system. These industries are so small as to lie outside the scope of commercial or industrial banks.

We shall confine ourselves to organised industries. They need both short-term and long-term funds. The former are required for meeting current expenses like the payment of wages

and the purchase of raw materials and the latter for more permanent expenditure like the construction of factory and the purchase of machinery.

How far is the need for short-term funds met at present by the existing banks? Some of the small industrialists complained before the Provincial Banking Enquiry Committee in Bengal (and the complaint is by no means confined to the industrialists of the province) that the existing commercial banks were unwilling to advance even short-term funds to them, either against block or against produce.

The chief reason why advance against block is refused is that such assets are not liquid. From the banker's point of view, even advance against produce has its difficulties. If the commodity against which advance is required, has a limited market or the demand for it is seasonal in character or it is liable to great fluctuations in prices or to rapid deterioration of quality, it will be difficult for banks to grant even short-term loans against such assets. Moreover, modern banking facilities can hardly be expected without modern methods of business. Some of the proprietors or managers of small factories in India have such an informal way of doing business that commercial banks naturally hesitate to make even short-term advances to such concerns.

When these difficulties do not exist (and the starting of industrial banks would not remove them), the industries in India should not experience any difficulty in obtaining short-term funds against produce, from the existing banks. Such advances may be further facilitated by the establishment of licensed warehouses and the use of warehouse receipts as securities for loans. Some of the Indian industrialists however complain that they find it difficult to satisfy the Imperial Bank and other banks whose superior staff is mainly European, as to the soundness of their financial position. The real remedy for this is the Indianisation of the staff of the existing commercial banks or the starting of such banks by the Indians.

One well-known Indian economist has recently observed that while there is no difficulty in obtaining from commercial banks current finance for industries in times of prosperity, complications arise during periods of depression. On such occasions, the banks' refusal to renew overdrafts may lead to the failure of industrial concerns. This argument was also advanced before the Indian Tariff Board on Cotton Textile Industry Enquiry. But this is only an argument for spreading risks with investments in different classes of securities. It is true that there may be depression in a particular industry. But this need not lead to the recall of all temporary loans by banks to such industry, for safeguarding their short-term liabilities. If the banks employ their resources in different directions, depression in one industry would not affect them so much that they would refuse all fresh loans to the industry. Even if the depression affects all the leading industries, the only result will be a relative rise in the rate for temporary loans and a higher margin for advances. There will be the same result even if such loans are advanced by industrial banks.

It appears that the difficulty of Indian industrialists as regards short-term finance is partly due to their inability to raise sufficient capital at the initial stage. Their scanty capital is often invested in machinery and buildings, leaving little fluid capital available for current expenses. The real remedy for this is the increase of long-term capital to industries.

This may be done in different ways. An organisation may be set up for the investigation of industrial propositions and for the marketing of industrial securities, giving some sort of guarantee that the securities purchased by the public, would have a fair chance of paying a good dividend or an institution may be started for granting long-term advances to industrialists out of its own share capital or of any other kind of long-term fund raised by it, or both the methods may be combined in the same institution.

In England, the first method has been followed in the past, though rather sparingly but the recent tendency is towards greater

use being made of it. The relation of English commercial banks to industry is even now confined to providing circulating capital, leaving to the investor the provision of fixed capital for industries. The rapid progress of British industries in the past and large profits available for reinvestment in industries made any special organisation dealing in industrial securities more or less unnecessary. But even in England, investment banks have arisen which take part in the marketing of industrial securities. The great Issue Houses do some work of this kind, though they are more interested in the issue of foreign loans. A number of minor financial houses in England deal also in industrial securities, both home and foreign.

In recent years even the English commercial banks have abandoned their old attitude of aloofness. In November, 1929, there was registered a subsidiary of the Bank of England called the Securities Management Trust. In April, 1930, a further step was taken. A new company called the Bankers' Industrial Development Company was registered, with its share capital subscribed by all important English banks and issuing houses and the Securities Management Trust. The new company will not itself grant loans to industries but it will certify approved schemes of industrial reorganisation so that the necessary capital will become available to industries through existing channels.

In Germany, on the other hand, there is no such segregation of commercial and investment banking. The great joint stock banks there (*Grossbanken*) first arose as investment banks. They attracted very little deposits at the time. Thus in 1857, the working fund of the then existing 14 joint stock banks in Germany was 296 million marks, " of which not less than 205 millions were represented by shareholders' money." By the early 'nineties when after numerous bankruptcies among the private banks, deposits began to flow to joint stock banks in Germany, they acquired their distinctive features of mixed banking and became also banks of deposit. But right up to the Great War, the German

banks worked with a much larger proportion of capital and reserves to their liabilities than is the case today. Their long-term investments in industries are now much smaller than in the past. They are developing along the lines of English deposit banks but they still continue their issue business and active influence on industry.

The mechanism of German industrial banking is also peculiar. The majority of German firms are financed, not by a single bank but by a banking syndicate, consisting generally "of one or more D-banks and a number of private or provincial banks. All issue business is carried out by the syndicate and it also plays an important part in credit business." The chief members of the syndicate are represented on the board of directors of the industrial concerns. It is simply a supervisory board without any executive functions. It may be noted here that Grossbanken are intended for the financing of large industries. They combine all kinds of financial business with the sole exception of mortgage credit transactions.[1] They have done little for the small manufa[illegible]rers of Germany.

It is not possible to discuss in this short paper the role of banks in the industrial finance of different countries. In most of the continental countries, the joint stock banks still continue to be the middlemen between investors and industries, along with their functions as commercial banks. Even in the U.S.A., State Banks have during recent years tended to develop investment banking while many trust companies have developed commercial banking functions along with those of investment banks. The Mc-Fadden Act of 1927 has broadened also the investment functions of the national banks of the U.S.A.

Though banks in India have practically the same features as the commercial banks in England, the English method for long-term investment in industries is not possible in India at the present

[1] For this special class of business, there are joint-stock mortgage banks (*Hypothekenbanken*) in Germany which lend money on mortgages on real property, chiefly urban lands and buildings.

time. Both the technique and the organisation for such investment are practically absent in this country. Unlike England, industrial debentures not carrying guarantee of interest by government or semi-government institutions, have not been sufficiently popularised in India. Agencies for the marketing of industrial securities like the English issue houses and finance companies are also wanting. Stock Exchanges in India are few in number and they confine their activities chiefly to government and semi-government securities and to a very limited number of industrial shares. Institutions like investment trusts to relieve the small investor of a part of his risks, are also absent. There is little likelihood that all these institutions for investment banking will develop in India in the near future.

At present the work of marketing industrial securities in India is carried on mainly by the company promoter in whose methods of business the public have little confidence. Some of the successful firms of managing agents in India arrange or themselves provide the finance required for the industries under their management. Thus Messrs. Martin & Co. are the financial agents of 13 Indian tea gardens in Bengal. Advances are made by the firm out of their own funds against mortgage of gardens, buildings and machinery in the case of new concerns and against hypothecation of crops in established gardens. But the number of agency firms which finance industries, is very limited. The tendency of the majority of managing agency firms is to develop commerce rather than industry. Some of the firms of recent origin, do not also command sufficient credit to render any financial assistance to the industries under their management.

Is the German method of long-term industrial finance suitable for India? Dr. Gilbert Slater in his note before the External Capital Committee suggested the development of Indian joint-stock banking by the adoption of methods similar to those employed in Germany by the D-Banks. But the methods of the D-banks can hardly be adapted to Indian conditions. The existing banks in

India are quite limited in number and there are few banks in the mofussil to form any syndicate with the banks at the chief ports. The tradition of active participation in industry and of the interlocking of directorates is also absent in the case of the existing banks in India. Even it were possible to convert these banks into Indian *Grossbanken* or to start new banks on these lines, they could meet the needs only of those large industries which have issued shares or debentures, by marketing these securities. But the great bulk of organised industries in India is small in size and has attracted little share capital. Some of them are owned by private proprietors and have no share capital at all. The most suitable form of financial assistance to such concerns is long-term loans against the mortgage of fixed assets. In other words, the chief function of the industrial bank in India, in the present state of our industrial development, will be mortgage banking and not issue business.

The best course for us will therefore be to start an institution, mainly on the lines of the Industrial Bank of Japan which combines some of the functions of German *Grossbanken* with those of industrial mortgage banks. The chief features of this bank are that it is a joint-stock concern with a fairly high paid-up capital but it relies for its working funds mainly on the issue of debentures up to ten times its paid-up capital. With a view to attract small investors, the minimum denomination of debentures has been fixed only at 20 yen. The bank is allowed to carry on commercial banking. It receives deposits and discounts bills of exchange. But its chief business consists of loans on mortgage. It grants call loans or loans for a fixed term on the security of sites and buildings belonging to factories, the maximum period for the loan being five years, except in cases of special necessity. It sponsors and underwrites new issues of industrial shares as well as public loans. It received from the Government the guarantee of a dividend of 5 per cent during the first five years of its work but it is still under the supervision of the Minister of Finance. The

Government has on more than one occasion come to its special aid. Thus, in 1913, the bank incurred heavy losses owing to the depreciation of securities owned by it and to outstanding loans to some gold mines. The Government came to its assistance by means of a loan of £1,350,000 at a cheap rate arranged through the Bank of Japan and the Yokohama Specie Bank. The President and Vice-President of the Industrial Bank are nominated by the Government from among shareholders possessing at least 200 shares.

The Indian institution should be a joint stock company with share capital but the bulk of its working funds should be provided for by the issue of debentures, as in Japan. It should have a number of branches in different industrial centres with its head office located either in Bombay or in Calcutta. It should not confine its activity within a single province but should be an all-India organisation, mainly with a view to wider distribution of risks and to provide a central agency for the issue of its own debentures and of industrial securities sponsored by it. It may be noted here that the Industrial Bank of Japan with its head office at Tokyo, has branches at Osaka, Kobe and Nagoya in Japan and at Peking in China. It "has also correspondents in important places throughout Japan, including Korea and Formosa, and has established connections with banks operating in China, England, France and America."

The industrial bank in India should be allowed to carry on all the chief items of business at present carried on by the Japanese institution. But some writers in India object to industrial and commercial banking being carried on by the same institution. The success of the German *Grossbanken* and of the Industrial Bank of Japan however shows that there is no danger in such mixed banking if short-term funds are not used to finance long-term investments. On the other hand, if commercial and industrial banking are carried on in two separate departments of the same bank, there will be some positive advantages, firstly there will be wider

distribution of risks and secondly, a reduction in the cost of management. Regarding the issue business, the industrial bank in India should not sponsor or underwrite all industrial issues but only the shares of those concerns which have a reasonable chance of success. They must have natural advantages, command expert management and follow up-to-date methods of work. It may be noted here that German banks confine their underwriting and issue business only to first class securities. Following the examples of German *Grossbanken* and of the Industrial Bank of Japan, the Indian bank may also tap foreign capital markets with a view to finance Indian industries, though the immediate prospect of attracting capital from abroad does not appear to be bright.

Would the bank be able to raise sufficient capital in India without state aid? The Madras Banking Enquiry Committee write that "if the public is unwilling to subscribe to the share capital of companies direct, there does not seem any great reason to hope that they will subscribe much to the capital of banks which will lend to those industrial concerns." If this is true, the industrial bank will not be able to function unless it is financed by the State. But the argument is not free from defects. All the Indian industries suffering from lack of capital are not financially unsound. The difficulty of raising capital in the case of some of them is mainly due to their inability to reach a wider class of investors through an expert organisation. The industrial bank would not incur any great risk in lending to such concerns. Again, an all-India organisation like the proposed bank will be able to distribute risks of investment on a much wider basis than is possible for a single undertaking. Investors who may hesitate to purchase the shares of an industrial concern, may be quite willing to buy the shares of the proposed bank. The guarantee of a minimum dividend on the shares of the bank, even for a limited period, is therefore unnecessary. On the other hand, such a guarantee may lead to undesirable results. The shareholders, through their Directors, might make reckless investments if they

were assured a guaranteed rate of interest. But the case of debenture-holders is quite different. They are cautious investors, expecting a steady yield on their bonds A sinking fund should be set up for the redemption of the debentures and it should be freely utilised in order that they may maintain a stable value. On the managing board of the bank, there should be a few trustees elected by the debenture-holders to safeguard their interests. State guarantee of a minimum rate of dividend for a limited period, appears also to be necessary in the case of debentures

The question of State assistance naturally brings in the question of State control. So long as the State accepts responsibility for a minimum dividend on the bonds, it should have some of its nominees (they need not necessarily be government servants) associated with the management of the bank.

What should be the extent of financial assistance to be rendered by the bank to Indian industries? It will supply their financial requirements both for short and long periods, though with regard to the former, it will only supplement what is already being provided for by the existing commercial banks. With regard to long-term loans, it should be noted that depreciation is a more important factor in the case of machinery and factory buildings than in the case of agricultural land. Long-term industrial loans should not generally be given for a longer period than five years, though in agriculture such loans are granted even for fifty years. It cannot be too often emphasised that the industrial bank cannot find money permanently for capital expenditure in industries. Its main function, in whatever form it is exercised, is to act as an intermediary between the permanent investor and industry, supplying not only short-term deficiencies of capital but also those extending over a period of time.

Lastly, it may be noted that financial difficulty is not always the only or the main difficulty of Indian industries. The lack of finance in not a few cases, is the direct result of deficiency in business experience, want of technical knowledge and similar

causes. In such cases, the provision of finance will merely add to the losses unless the industrial concerns are efficiently organised and managed. But the help rendered by the industrial bank must necessarily be connected with finance. It can hardly be expected to give technical assistance nor can it undertake the task of industrial reorganisation and management. Those who regard the industrial bank as a panacea of all our industrial difficulties, should bear in mind the following remarks of Riesser, the great champion of German *Grossbanken*:

"It was not the banks that brought about the industrialization of Germany but certain elementary economic causes working with irresistible force."

BENGAL LOAN OFFICES

BY

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In the course of his address before the Annual Meeting of the Midland Bank, in January, 1930, Mr. Reginald McKenna gave the following description of English banking at the time of the passing of the Bank Charter Act of 1844. A list of banks then operating in England and Wales contained well over 400 separate institutions, with only about 600 branches. As three-quarters of these were private banks, no statistics about them are available. Even with regard to joint stock banks, only meagre details may be obtained. Mr. McKenna has however examined the available records of the institutions absorbed by his own bank, and has pointed out that leaving out the London Joint Stock Bank, which was a metropolitan institution, the largest paid-up capital was £200,000, while the highest individual total of deposits was £750,000. As the companies absorbed by the Midland Bank form a fair sample of the whole list of banks in operation at the time, it is easy to see that banks were then both small and strictly localised. The result of this weak organisation is apparent from the heavy list of bank failures. Sir Robert Peel reported to the House of Commons in 1844 that as many as 82 private banks had failed in the five years to 1843, that 46 of these had paid no dividend at all to their creditors, and that only 5 had paid a dividend of more than ten shillings in the pound.

Mofussil banking in Bengal today is comparable to English banking about 1844. There are about a thousand small joint-stock banks in Bengal, often called loan offices, practically without

any branches. Their paid-up capitals are meagre in the extreme, although a few well-established concerns have attracted substantial deposits. But failures are surprisingly few. Wherein lies the strength of these small, scattered and incohesive institutions? What are the dangers lying ahead? How can they be guarded against? These questions should engage the serious attention of all, who are interested in the economic development of Bengal.

The early history of these institutions is lost in obscurity. Recently, some light has been thrown on the subject by Dr. J. C. Sinha's paper on "Land Mortgage Banking" published in the Bankers' Magazine for February, 1929. There is an interesting description of one of the earliest companies, viz., the Jessore Loan Co., established in 1876, which is typical of the rest. The articles of association are very interesting. A few clauses are reproduced below:

"For the examination of the accounts and preparation of the balance-sheet, the Secretary and the Managing Director may stop the business of the Company for ten days before the appointed general meeting. . . . .

"A Remark Register shall be kept at the registered office of the Company in which shareholders and directors are to note their suggestions about the working of the Company and the Managing Director and the Secretary write their remark. The Register shall be produced at every meeting of the directors and the shareholders . . . . . .

"A fee ranging from 2 annas to Rs. 5 is prescribed for writing out loan papers and supplying copies . . . . . .

"Interest shall be paid at 8 annas per mensem[1] on fixed deposits repayable at one year's notice and at 5 annas on short deposits repayable at seven days' notice. Such interest shall be paid every four months, viz., in August, December, and April. No

1 This works out to 6 per cent per annum and was reduced to 5½ per cent by the general meeting held on February 21, 1904.

interest shall be paid for seven days on each occasion, which will be required for the calculation of the interest due . . . . .

"The following regulations are prescribed for the issue of loans:

Against	Up to an amount not exceeding the following percentage of the value of the security	Rate of interest per cent per mensem
Gold, Silver and Jewellery ...	25 to $33\frac{1}{3}$	10 to 12 annas
Deposits with the company	85	,,
Shares of the company ...	90	,,
Government promissory notes	80	,,
Real property (value at not more than 15 times the annual yield)	50	10 annas to 1 rupee
Personal security ...	...	12 annas to 1 rupee"

It is surprising that the Company held out that it was prepared to grant loans against time deposits, thus reducing them virtually to the status of demand deposits. It is still more curious that the Company's own shares were regarded as a better security than even Government paper. Unfortunately such antiquated banking practices continue even today. Book-keeping and audit are still unsatisfactory. Sufficient care is not taken to build up a substantial reserve fund. Adequate liquid resources are not maintained. At the present time some of the small loan offices in the mofussil are so hard pressed for money that quite high interests are being offered for short-term deposits.

Against these and other defects must be mentioned a peculiarly gratifying feature, viz., economy of management. Expenses are incredibly low even for big offices. Land mortgage loans form

the bulk of the business, but not much expense is necessary for ascertaining the value of the properties and verifying the rights of the owners, as the directors are generally lawyers having an intimate and detailed knowledge about the borrowers, who are mostly their clients. These directors are men of considerable local influence and command the confidence of local depositors, specially in the case of old well-established concerns. Thus Bengal Loan Offices may be compared to English private banks before the Bank Charter Act, both as regards weakness and strength. Probably the elements of strength are greater than the elements of weakness in the case of loan offices. For one thing, they have no note-issue like English private banks. But their time-deposits are in many cases demand deposits and their funds are locked up in land mortgages,—often in land itself acquired from the mortgagor in satisfaction of loans, but not disposed of.

Nor can a bank in temporary difficulty obtain assistance from a neighbouring institution to tide over a crisis. There is too much of rivalry and jealousy. Cases are known where the same borrower has been successful in getting loans from three separate offices against personal security, his property justifying only one such loan. In some areas, where there have been set up more loan offices than are necessary, following the establishment of some successful big offices, there is an actual touting for deposits. These evils have been pointed out by the Bengal Bankers' Federation, the Association for Bengal loan offices, but the remedy suggested has not yet been adopted. The plan put forward is to set up a Central Bank, called the Bengal Federal Bank, partly with the help of preference shares and partly with the help of ordinary shares, the latter to be contributed by the loan offices alone. Only a small proportion of the ordinary share capital is to be called up, the reserve liability proving an invaluable asset of the Federal Bank. Against this ample security it will be possible to float preference shares at a moderate rate of interest. The money thus obtained is to be lent to the loan offices to finance

their lock-up advances. At the same time, a determined attempt is to be made by them to open up avenues of short-term business by enlisting the sympathy of local traders and merchants,—the *Aratdars* (warehouse-keepers) and *Beparis* (wholesalers) and others, inducing them to employ modern commercial practices and instruments and offering better terms than indigenous bankers, on whom mostly they have to depend at present as a consequence of their informal and antiquated business methods. There is a sufficient scope for the employment of resources of all the Bengal Loan Offices in the orderly marketing of the two chief crops of Bengal, rice and jute, and the financing of the trade in cotton piecegoods and similar articles consumed in the mofussil. If the loan offices thus play their part in the movement of crops to the port and of manufactured commodities from the port, a strong nexus will be set up between Calcutta and mofussil. The present anomaly of tight money in Calcutta and easy money up-country and *vice versa* will be abolished.

Unfortunately, however, the loan offices do not seem to realise the supreme importance of establishing a central institution, which will bring about greater cohesion among all and impart strength to the whole system. It is commonly supposed that if a bank maintains a sufficiently high proportion of cash to liability, it may regard itself as perfectly safe. But it should be remembered that during the critical days of July—August, 1914, English banks did not augment the cash on hand by drawing upon the Bank of England; on the contrary, they increased their balances with the bank—a fact evident from the considerable addition to the volume of "Other Deposits" in the balance-sheet of the Bank of England at the time. What they did was to "put the market into the Bank," that is to say, they realised their money at call and short notice and allowed short bills of a few days' currency to "run off," compelling the parties so long financed by them to get accommodation from the Bank of England. It is clear, therefore, that with a strong central bank in operation, even an acute

crisis does not require any increased cash resources on the part of individual banks, which are able to pass practically the entire burden on to the central bank.

It is equally clear that the veneration paid to the cash position by the banking laws of many foreign countries is largely undeserved. This, however, is not recognised in Bengal. Many witnesses before the Banking Committee have proposed a statutory cash percentage. Similarly, there seems to be a disposition to overestimate the importance of reserve funds. It is overlooked that the ample reserve fund of the Alliance Bank of Simla, exceeding the paid-up capital by as much as fifty per cent, could not avert its failure. Nor can it be said that the deposits were out of all proportion to the paid-up capital *plus* the reserve fund. For, before the War and prior to the series of advances to Messrs. Boulton Bros., which proved ultimately unrealisable, this proportion was about 12 and therefore well within the limit of 10 to 15 found in the case of English banks. The fact is that well-established banks rely more on hidden reserves than on published reserve funds, any diminution in which will be naturally interpreted as an extraordinary loss. Thus investments and bank premises are shown at below market values on the assets side and more than enough provision for doubtful debts and contingent liabilities is made in the item "Other Accounts" on the liabilities side.

In fact, it is not so much in legislative regulation as in efficiency, integrity and economy in management that depositors must look for their real safety. For ensuring this, some have suggested that depositors should elect a few directors in order to protect their interests. This is contrary to all banking practice. The analogy of the Imperial Bank of India having directors appointed by Government to safeguard substantial Government deposits cannot hold good, for a central bank, even of a somewhat halting nature, like the Imperial Bank must be carefully distinguished from an ordinary profit-making institution, whose chief aim is the payment of the highest dividends compatible with safety. With

directors elected partly by shareholders and partly by depositors, there will be divided responsibility and all the evils of "dyarchy" must ensue.

Can nothing then be done to check the present admitted evils? There are two possible lines of reform. One is that the good old doctrine of *caveat emptor* should have full play. A depositor, who for the sake of a higher rate of interest, chooses a bank, which he knows to be in a precarious position, cannot and should not be protected. But for achieving this purpose, the true position of banks should be made known as far as possible. The balance-sheet at present prescribed is not sufficiently detailed. The securities against loans should be classified as also the investments, showing what proportion of the funds is locked up in *zamindary* and other businesses undertaken by some loan offices following the practice of indigenous bankers. The reserve fund should not be unduly inflated, as at present, by including such items as depreciation on investments and provision for bad and doubtful debts. If these details are required by law, an auditor cannot give any offence to directors by appearing to be too inquisitive. At present he cannot discharge his functions in the same manner with adequate independence for he may not like to run the risk of not being re-appointed. When he feels that he must point out the defects to the shareholders, the situation may be irretrievably bad.

Another line of reform lies in centralisation. If the time is not yet ripe for the Bengal Federal Bank, amalgamation, or failing that, co-ordination of the activities of neighbouring banks should be carried out at the earliest opportunity. The strength of the whole banking chain cannot be greater than that of each individual link. Thus when a new bank, possibly small and inefficient, fails, there is bound to be some loss of confidence among depositors even of well-established concerns. For it should not be overlooked that depositors now are not all local and the directors cannot rely on their personal influence in the same way as before,

If Bengal loan offices do not take the initiative in amalgamating, they should be made to do so, either by prescribing a minimum paid-up capital or in other ways. This may involve some temporary hardships, but if a comparison is made between the English banking system today with the same system before the amalgamations, no sacrifice can be regarded as too great.

CREDIT AND BANKING PROBLEMS IN INDIA

BY

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SUMMARY

The greatest banking problem is the manufacture of credit on a large scale and its maintenance at the optimum level. For this, the proper organisation of the money-market is essential and it cannot be done unless money gets its proper place in a civilised community.

Banks in India should finance intellect and also the agriculturists. The former should be done on the American model and the latter on the model of the Plunkett Association in the Irish Free State.

The monetary problems that the agriculturists have to face in this country are (a) Ancestral debts; (b) Current debts; (c) Exactions of the authorities; and (d) Expenditure on Conventional Necessaries.

Land Redemption Banks in conjunction with Land Alienation Act can eradicate (a); Co-operative Societies can tackle (b); introduction of compulsory Primary Education can arrest the growth of (c); and the realisation of the fact that for some time to come allowance should be made for the inherent weakness in man will solve (d).

As regards the problems affecting the middle class, particularly of those who are in business, steps should be taken to provide credit to them and to so manipulate the tariff in this country that they succeed in "eating up the foreigners." What this class needs imperatively is the type of banks which will make credit for them against landed property.

The *Hundees* serve the purpose satisfactorily. What is necessary is to bring *Darshani and Miti Hundees* in line with the Bills of Exchange. Here a change in law is suggested.

The most important function of banks is to manufacture Credit on a large scale and to maintain the same at the optimum level. Luckily this problem is absent among the animals and is visible in a very negligible form among the barbarians. In fact credit and civilisation go hand in hand because without the rapid multiplication of Credit, civilisation cannot exist. So we gain nothing by making a comparative study of life in the lower planes. For our purpose, a comparative study of the so-called advanced countries will be profitable.

The Quasi-Advanced Countries.

Civilisation presupposes leisure and leisure presupposes a certain fund (which we might term the Reserve of the Nation) which can be manipulated and drawn upon in order to subsidise Intellect in a higher plane.

What differentiates Life in an advanced country from Life in a backward country is its complexity and higher pressure. To simplify Life and lower the pressure, money in its widest sense is essential. That is why money has been termed the lubricant which keeps the wheels of Civilisation rotating at a tremendous pace without much friction.

How Money Simplifies Life.

"Everything has a cash value" is a saying which is partially correct. But it must be borne in mind that the degree of correctness in the above is much greater than the degree of incorrectness. The highly civilised countries are drifting more and more towards the Cash Nexus. Even ethical values are being expressed in terms of money. So the possession of one measure of all values—

the Almighty Dollar—obviously simplifies life to an extent unperceivable to the animals and the peoples in the jungle.

How Money Reduces Pressure.

Nine-tenths of the worries in civilised world today are directly or indirectly traceable to money. Had it not been for the excellent organisation of the money-market outside the Dark continents—Asia and Africa—the modern civilisation would have collapsed long ago. Unless your money market is organised to its fullest capacity, you cannot sail in the same boat in which the other civilised countries are sailing. Civilised countries form a sort of federation. They sink or swim together.

The Position of India.

India had a civilisation of her own quite distinct from the civilisation of others. She evolved a very high type of civilisation which was quite distinct from the present-day European-cum-American civilisation. Money was given its proper place. It was never permitted to dominate man or to dethrone God. (I am not talking of the hotch-potch civilisation of today, but of the civilisation that flourished in the Vedic and the Epic periods.) Even today money is not such a soul-racking problem in the poverty-stricken India as it is in the highly rich countries of the West.

We have switched ourselves to the Occidental Civilisation without organising our money-market as the Western countries have done. Therefore the first problem for India is to *Re-value the Value of Money*. Money must be made to dominate man and to dethrone God. Unless we can do it, we shall be no match to the highly aggressive rich of the West who pin their faith more on their cheque-books than on their religious doctrines.

It is no use harping on the persistent chronic poverty (poverty raised to the n^{th} degree) of this country. We shall study the conditions and suggest measures for improving them.

From the standpoint of banks two conditions are responsible for the growing poverty of this country. Banks neither finance intellect nor they finance the agriculturists. The Middle class which is an amalgam of the Intellect class and the Agriculturist class naturally finds itself between the Devil and the Deep Sea. Everywhere the Middle class is the main prop of the nation. Here in India it is a broken reed floundering in the deep sea.

In order to have a correct view of the problems as they exist in this country, we should study them from the point of the Intellect class and the Bottom class and leave out of consideration the Hyphen class (the middle class). Because the moment you improve the Intellect class and the Bottom class you automatically improve the status of the Hyphen class because it is this class which will reap the maximum advantage from any improvement in the other two classes. Unfortunately the Banking Enquiry Committee has studied the problems of the Hyphen class and the Bottom class from a visionary angle. They have completely left out of account the financing of the Intellect class which I consider the most important. I must confess here that I am discussing the Banking Enquiry Committee from the questionnaire they submitted to the public. I have no hesitation in declaring that the long list of questions is " too wooden, too iron, and too anti-diluvian " and the public money and time ought not to have been wasted in devising ways and means with which a beginner in economics is so fully conversant. For example, the great mistake of the Banking Enquiry Committee is its faith in legislation. It is bad because Law like a Police Constable can keep watch. It cannot create anything. In popular slang, Law cannot deliver goods. How can it remedy the following: (a) *the Ganth Kholai* (charge for opening the purse); (b) the convention which forces the debtor to give something in kind like ghee, curd, vegetables, personal service, etc., while paying interest to the creditor?

No Law can put an end to the above practices. In one form or another they would be exacted. What is necessary and what

the Committee ought to have stressed is the real change of heart. Unfortunately this line of action has been left out of consideration.

The Committee should have placed proper emphasis on the function of Banks to finance the Intellect class.

Financing the Intellect Class.

In the U.S.A. there are certain financial agencies which subsidise Brain. A man who has taken his legal, medical or any other degree and has shown very good results can easily secure financial help provided he belongs to the "go-getter" type. If his character is good and he is well-sponsored by any respectable man who takes no financial responsibility, money will be advanced to him or practice will be bought for him. He will be established in his line and, if he makes good, he shall liquidate the help in easy instalments. In case he fails, the agency may put up with the loss or make him take out a Policy against the risk of failure prior to rendering him any financial aid.

(The point here to emphasise is the desirability of co-ordinating the activities of the Insurance and the Banking Companies. This productive field has been permitted to lie fallow in India.)

If the candidate is a technical man, capital easily flows in and he sets up a business and thus ultimately makes good.

In short, attempts are made to develop and mobilise Intellect. In India, Intellect is developed and then is gracefully allowed to rot.

No attempt is made to utilise Brain for the betterment of the nation. The Government and the people are both responsible for this sad loss of highly trained intellect. It is so very sad to see a first class first M.A. (Math. or Arts) or M.Sc. (Science) or a highly trained specialist applying for a job of Rs. 40 as a clerk in the Post Office.

The function of the nation is not over after the Intellect is trained. The nation must provide agencies for the proper utili-

sation of Brain else it will deteriorate culturally. Truly it is said that Civilisation is a function of life and for life.

Banks in conjunction with Insurance companies should take up this essential business. Unless it is done the fate of the nation is sealed.

Financing the Bottom Class.

The Bottom class is essentially formed of people who eke out their livelihood out of land. This class is perennially in debt and the causes responsible for this unfortunate state of affairs are: (1) uneconomic holdings due to fragmentation of land; (2) low-earning capacity; and (3) shortage of funds due to (a) Ancestral debts; (b) Current debts; (c) Exactions of the authorities; and (d) Expenditure on Conventional Necessaries. The Banking Enquiry Committee has tackled this complex problem from 90° angle—I would not call it a right angle. I call it a 90° angle because they have rightly focussed their attention on the financial handicap of the Bottom class which is the crux of the agricultural problem. One might term it the base of the (Agricultural) Credit Pyramid.

The problem of uneconomic holdings can be solved by a change in the laws of succession and by passing a Land Alienation Act; earning capacity can be increased by rigorously enforcing compulsory Primary Education; and the question of agricultural indebtedness should be tackled from the following standpoints:

(a) For liquidating ancestral debts.—Land Redemption Banks (Mortgage is not a happy word as it carries unfortunate associations with it) should be established. In theory, all land in India belongs to the State, a happy legacy of Pax Mogolia. Therefore, the State runs no risk in floating periodic loans with a view to redeem old debts.

If the loan is placed in New York, the Government can easily raise the money at 5 per cent per annum. Money for redeeming land should not be given at a higher rate than 8 per cent. Those

who redeem their debts, and they would be many, will save a large part of interest. They shall have to give up their right of raising money on land in the future. Thus by a stroke of the pen the Government will destroy the Moloch which devours the agriculturists in this country. (I have suggested above the floating of the loan but as a last recourse. The Government, if it likes, can make provision in their budget not by levying any new tax but by Rational Retrenchment, not of course on Inchcapian principles.)

(b) Current Debts.—A farmer is forced to borrow money for raising the crop and keeping himself alive till the crop is turned into money. This part of the business can be easily tackled by Co-operative Societies. With varying success they do it but they have not been very successful. The defects in the constitution and the working of the societies are very serious and unless they are removed and brought in line with the famous Plunkett Organisation in the Irish Free State they cannot do much good.

The defects in the constitution of the Societies are:—

(1) Their top-heavy expenditure in maintaining a Registrar (I.C.S. man generally and thus obviously out of touch with the soul-racking problems of the agriculturists); and (2) the subordinate staff which is generally inefficient and ill-paid. Naturally so many cases of embezzlement and fraud.

The defects in the working of the Societies are:—

(1) Their faith in Red-tapism thus leading to specialisation in passing "the buck to and fro" to quote Mr. Henry Ford; and (2) rigid movement of the Government machinery which grinds slow but sure.

Co-operative Societies should be worked on the lines of least interference from the Government. In connection with the current debts, I would also make two important suggestions: (i) establishment of central granaries, and (ii) improvement in marketing facilities.

Expenditure on Conventional Necessaries does take away a large part from the meagre income of these people. This is due

to faith in ritualism. This should be discouraged by giving them Light but till it is completely destroyed a recognition of this fact will remove much of the friction which exists between the societies and the villagers. (I believe that much of the success of the village *mahajan* is due to the recognition of this fact. In order to oust him or to absorb him, the societies will do well if they fall in line with him for the time being.)

The above suggestions if given effect to will materially improve the financial status of both the Intellect class and the Bottom class and naturally the Hyphen class which draws from both will gain immensely.

The middle class is either engaged in service or business or in professions. Those who eke out their livelihood out of business come within the purview of this article.

The vital food for the growth of business is Credit and as has been said above the main business of manufacturing credit on a large scale is the function of the Banks.

In fact the two important ideas underlying the development of industries are: (1) the proper availability of credit, and (2) the scientific manipulation of tariff. The latter is the domain of the Government. Given the above two conditions even the Sahara will bloom out as an important industrial zone.

India has no control over her own tariff and her indigenous banks only help in financing the internal trade. Machinery for financing international trade is extremely defective. Thus she is at the mercy of foreign banks which primarily work for the benefit of the group which dominates them. Even the purely Indian concern, the Imperial Bank of India, Ltd., has shown itself indifferent to Indian interests. What wonder then that India lags behind? Therefore the prime necessity for the development of industries in India is the founding of Industrial Banks which will finance right projects and of Banks which will manufacture Credit against immoveable property.

It is unfortunate that Banks in India though willing to manu-

facture Credit against gilt-edged securities are averse to doing so against landed property—houses and villages. It is a known fact that Indians whenever they have surplus cash prefer investing it in landed property and not in shares. In times of need it is easy to raise money on shares and well-nigh impossible to raise the same on land though in most cases the security offered by the latter is much greater and much securer than the former.

The only way to raise money on immoveable property is to go to a *mahajan* who charges exorbitant rates as he makes no difference between productive and unproductive loans. For the proper development of Credit need for a type of banks which handle immoveable property is very great.

What the Government must do.

The Government must bring into existence a Central State Bank and make this bank keep a deposit of fifty lakhs by way of a Reserve Fund with the Industrial Bank. This will considerably tone up the credit of the Industrial Bank. People then, will not doubt the stability of the bank. Why I suggest the creation of a State Bank is the undesirability of any private bank like the Imperial Bank getting an upper hand in the *modus operandi* of the Industrial Bank. If the Government asks the Imperial Bank to keep fifty lakhs with the Industrial Bank, then the whole machinery of the Industrial Bank will be set in motion to benefit the Imperial Bank and may be to throttle the Indian industries yet in the embryo. If the Government becomes a direct investor, then as already suggested it would neither be to the advantage of the Government nor to the Bank.

The Government further must create an "All-India Industrial Board." A separate Industrial Board like the Tariff Board consisting of industrial experts must be founded by the Government. The function of the Board will be to examine on payment any new scheme submitted to it for opinion. The Board will go through the scheme carefully and submit its report.

The Constitution of the Industrial Bank.—If the scheme to have one Industrial Bank for India with its ramifications spread throughout the country is adopted, then it will be desirable to form an executive board of the Bank—call it the Board of Directors—consisting of:

(1) One representative from each Province;

(2) One representative from various Chambers of Commerce; and

(3) The Hon'ble the Member for Industries to the Government of India.

The inviolable principle of this Board ought to be to maintain the ratio of representation between Indians and non-Indians which should be fixed at 2 to 1.

The Board constituted as above will inspire confidence and the result will be that money will flow in. There is no dearth in India of a Tata, a Mukerjee, a Ganga Ram, a Harkishan Lall, a Chetty, a Srivastava or an Allan; and therefore the possibility of forming a Board like the above is not a remote possibility.

The ratio of 2 to 1 is an absolute necessity. Indians must have a dominating voice on the Board. It is their money, their products, and their country that the Bank is after. So the Bank must be subject to the will of the people. So far Banks have exploited the indigenous resources to the advantage of the non-Indians and even the recently constructed Imperial Bank has not taken any initiative to develop the wonderful resources of the country.

A word about the first Industrial Bank started in India, namely the Tata Industrial Bank. The Tata Bank was handicapped by (1) lack of Industrial Board; (2) the Bank did more of ordinary banking business. Neither it did nor it could encourage the growth of new industrial plants; and (3) the Bank was one man's show. So it naturally offered more facilities for certain particular businesses and thus succeeded in creating dissensions in the minds of other captains of industries.

So the scheme suggested above, viz., the formation of an Industrial Board, the Government deposit of fifty lakhs with the Bank, the formation of the Directors' Board and the maintenance of Indian strength to non-Indian strength at the ratio of 2 to 1 will bring into existence a mighty Industrial Bank which will by stemming the tide of growing poverty make the "rivers of honey and milk" flow again in this country.

Finance of the Bank.—The Bank should have an authorised capital of ten crores. The whole of the capital should be issued and if fully subscribed, as it would be, if the Board is a strong Board, fifty per cent should be called up. The remaining fifty per cent on the shares can be called up by a series of calls whenever the need arises. The shares should be of Rs. 10 each so that even a man of ordinary means may have a chance of investing his money and thus doing his bit.

What the Bank will do.—Out of the money so collected, the Bank will finance old industries, give impetus to the growth of new industries, pass on the new industrial schemes or patents or inventions to the Industrial Board for their opinion—if the opinion is favourable then the Bank will take in hand the scheme on either outright sale or royalty basis and if the opinion is not favourable then the Bank will reject the scheme. It would discount negotiable instruments and will promote the growth and the velocity of circulation of the indigenous *Hundees* referred to above.

What the Bank will not do.—The Bank will not dabble in speculative transactions. It would keep aloof of exchange transactions. It would further not do the *Satta* (cotton gamble, opium gamble, etc.) business.

Bank's Balance-Sheet.—To make clear the above points, a graphic attempt is made below. The following transactions are assumed:

(a) Fixation of atmospheric nitrogen into the soil 2 Crores
(b) Paper Mills, Lucknow ... ... 10 Lakhs

(c) *Jokhami Hundi* ... ... 2 Lakhs
Darshani Hundi ... ... 5 Lakhs
and (d) Bills of Exchange, and demand pronotes 6 Lakhs

All-India Industrial Bank, Ltd.
Balance-Sheet.

Liabilities	Rs.	Assets	Rs.
Authorised Capital (1 crore shares of Rs. 10 each)	10 crores ...	Nitrogen Co. Ltd.	2 crores
Issued Capital ...	5 crores ...	Paper Mills, Lucknow.	10 lakhs
Subscribed Capital ...	5 crores ...	*Jokhami hundi*	2 lakhs
Reserve Fund ... (Being Government Deposit)	50 lakhs ...	*Darshani hundi*	5 lakhs
		B/E & P/N ...	6 lakhs
	$5\frac{1}{2}$ crores	Balance ...	327 lakhs
			$5\frac{1}{2}$ crores

The Ideal Bank for India will be one which aims not merely at the distribution of the existing wealth but at the creation of new wealth. For this " Agricultural-cum-Industrial Bank " will be the ideal bank. The Industrial Bank above sketched shall provide an impetus for the development of agricultural wealth as it shall finance genuine bills—bills drawn against cotton, wheat, jute, sugar, oil-seeds, etc.,—and will keep itself aloof from Accommodation bills. It shall taboo all " Pig on Pork " type of business. The Bank shall further provide facilities not only for the chimneys to increase in number, but also to keep them smoking. It shall encourage the growth and the rapidity of circulation of commercial documents.

General.—In Germany, behind the producers are the banks, behind the banks is the Government, behind the Government is the Army, and behind the Army are the people. In India, on the

other hand, behind the producers is a big blank, behind the blank are the banks, behind the banks is again a big blank, behind the big blank is the Government, behind the Government is the Army, and behind the Army is a big *Khud* (ditch).

Germany evolved out a high destiny for itself by materialising the vision of Bismarck in the Political field, the vision of Rodbertus in the Social field, and the vision of List in the Economic field. *Pari Passu* we can evolve out a high destiny for our country by materialising the vision of Tilak in the Political field, the vision of Gandhi in the Social field, and the vision of Tata in the Economic field. But shall we?—the answer is in the womb of Future.

A word about Hundees.—*Hundees* serve internal trade satisfactorily. Attempts should be made to so improve *Darshani and Miti Hundees* that they can be governed by the Negotiable Instruments Act. *Jokhami Hundees* can be left out of consideration as with the development of Insurance Companies their future is doomed.

The problems relating to Credit and Banking in India which I have briefly discussed above are of great importance to India for in their proper solution lies the material progress of our great country—INDIA.

AGRICULTURAL LABOUR IN NORTH BIHAR

BY

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SYNOPSIS

The problem of agricultural labour has not yet engaged the serious attention of Economists in India. The labour supply is derived from landless villagers or cultivators having uneconomic holdings. Even now in various parts of the country. Custom governs the relations between the labourer and his employer. Agricultural labour is skilled labour and the main object of the labourer is to acquire land for himself. The nature of the shortage of agricultural labour has been discussed and remedies suggested. Agricultural Wages are not progressive and with the gradual replacement of wages in kind by Cash Wages the lot of the agricultural labourer has become miserable. The organisation of Farm Labour Bureaus has been suggested for the better distribution of labour.

The problem of agricultural labour has not yet engaged the serious attention of Economists in India. The Prices Enquiry Committee made an enquiry into agricultural wages in 1914 and an attempt was made in 1924 by the Labour Office, Bombay, " to ascertain the annual changes in agricultural wages throughout the Presidency from 1900 to 1923." The Royal Commission on Agriculture paid some attention to this problem in 1926, but owing to the wide diversities in local conditions, a complete study of it is possible if intensive enquiries are instituted in all the Provinces with a view to examine all aspects of the problem.

It has been very properly remarked that the Indian farmer employs himself and has scarcely an occasion to engage any labourer outside his own family. The conception of the farmer

in England or U.S.A. employing farm hands either by the year or by the day has to be modified considerably when we meet the Indian ryot struggling with his scattered paternal holdings and even in the case of the larger farmers, employment in many cases is given to labourers who hold land from them as tenants-at-will. The bona fide agricultural labourer is one who has no lands of his own or whose lands are quite insufficient to maintain his family or whose other male relations look after the family lands while he takes up some other job to supplement the family income. The hiring of labour in many parts of Bihar is even now governed by custom. The labourer, who in many cases, is a tenant, is bound by custom to offer his services either without or with nominal remuneration to his *malik* or landlord on certain days in the year and in return for this he gives some privileges in the shape of low rents, etc. This is further strengthened by the fact that the labourer borrows frequently from the employer or has a running account with him if he happens also to be a grocer or merchant.

The labour supply is derived usually from the class of landless villagers or people having uneconomic holdings. From the Settlement and Census figures, we find that in North Bihar, the proportion of landless labourers and cultivators of uneconomic holdings is greatest in Saran and lowest in Champaran, in the former the percentage is 22 with a density well over 900 resulting in heavy emigration, while in the latter the percentage is as low as 9 and the density is 408. The supply of agricultural labour increases in an inverse proportion to the size of the holding, as the following table will show:

District.	Average size of holding.	Emigration, proportion per mille to population.
Champaran ...	... 5·19 acres	*Nil*
Muzaffarpur ...	... 2·18 ,,	59·06
Saran ...	... 1·82 ,,	89·69
Darbhanga ...	... 2·0 ,,	43·52
Monghyr ...	... 1·28 ,,	110·12

The reason is that the uneconomic nature of the holding is not sufficient to maintain the family hence the labourer has to seek employment in the neighbourhood or has to emigrate during the busy season to other areas. Dr. Mann, referring to the extremely small holdings in Pimpla Saudagár says, " This means that agriculture on a man's own land is becoming more of a partial occupation, with labour for wages as subsidiary " (Report of the Royal Commission on Agriculture, Vol. II, p. 19). The supply of agricultural labour, available for employment in other areas, depends, among other factors, on the nature of the harvest and the amount of the twice-cropped area in the home district. Where the Aghani rice crop does not predominate labour, labour can remain away for a longer period, e.g., Saran and North Monghyr have heavy migration but the percentage of the Aghani harvest is 34 and 33 respectively. Then again the practice of raising two crops to a large extent checks emigration by providing employment at home, while high density accompanied by a low percentage of the twice-cropped area tends to promote the migration of agricultural labour.

District.	Density of population.	Percentage of Twice-cropped to net cropped area.	Emigration, per mille of actual population.
Saran	... 872	37	89·69
Gya	... 457	21	81·65
Monghyr	... 517	20	88·23

The labour supply therefore is composed of part time cultivators and landless labourers. In many parts of the country, e.g., in Shahabad, Monghyr, and Patna, there is a class of labourers who are semi-serfs. They are called Kamiyas and are drawn from the Musahar and Dusadh castes. " It appears to be the custom for every man, directly he arrives at the age of puberty and wants a wife to receive a few rupees under the name of a loan from the village landholder and execute a bond by which he

binds himself to plough, sow, irrigate and reap the fields of the creditor and perform all the duties of a Kamiya or bondman." The Kamiauti Agreements Act (VIII of 1920) has made these contracts invalid if the term for which labour is to be given exceeds one year. The object of entering into contracts of this type is not only to secure cheap labour but to ensure a steady supply of labour in areas where there is labour scarcity. We meet with this type of labour in South India, where "a Padial is a sort of serf who has fallen into hereditary dependence on a landowner due to debt. In almost every case the original debt was a sum of money borrowed by a landless man to solemnize his marriage or more frequently that of his son or daughter the borrower undertaking to work for the lender until the debt should be repaid in return for a certain limited supply of food." (Slater: South Indian Villages, p. 8.)

Agricultural labour differs from factory labour in many respects. The most striking difference is perhaps in the objective which the farm labourer sets before him, viz., the acquisition of some land for himself if he has none or to increase his holding if he has any, whereas the factory hand can never dream of ever being a factory owner. This land hunger is well evidenced by the changes in the Census figures for farm labourers and ordinary cultivators.

Bihar and Orissa

	1911	1921
No. of actual agricultural labourers (male and female)	3,440,800	3,406,823
No. of actual ordinary cultivators (male and female)	10,511,140	10,911,349

From these figures it appears that during this period there has been an actual increase in the number of ordinary cultivators. This tends to show that a large number of labourers have succeeded

in securing lands and have settled down to cultivation, but the proportion of labourers to the cultivated acreage has remained the same, viz., for every nine acres there is one labourer. This tendency is further supported by the fact that everywhere in spite of getting higher wages the labourers are turning to the cultivation of small and uneconomic plots owing to their extreme desire for the possession and cultivation of land rather than give up this struggle and definitely take up the life of a farm hand. This accounts for the relative immobility of agricultural labour. The labourers who live in regions of oversupply are not aware of the opportunities for employment in other areas and the employers of these regions are also not in touch with them, hence the labourer is averse to take a leap in the dark and if he does so, he is always under a handicap in bargaining for wages. In addition to this there is the cost of railway journey which often impedes migration.

Agricultural labour is usually considered as unskilled labour and the rate of wages which he receives is invariably lower than what the village artisan gets, but the same farm hand has to perform so many diverse occupations from ploughing to weeding, manuring and irrigating that he has to be conversant with all the different aspects of agriculture and this knowledge can be acquired only after years of hard work and observation.

The lot of the farm labourer in most parts of Bihar is a hard one. He has no lands, grows no crops and has to maintain himself mainly on the low wages which he earns in the village and even where he has some lands they are quite insufficient to support him and his family. "Thus spending what they earn from day to day they have very little to pawn or sell and they are the first to feel the pinch of scarcity when crops fail." Their only chance to improve their economic condition is to migrate to other areas, in and out of the Province. These migrations are temporary and seasonal in character. In North Bihar, the busy agricultural season is between May and November when the labourers have

sufficient employment at home, while the migration starts from the end of November and continues up to March. The second season for migration is in July and August when the labourers proceed to the Jute Districts of North Bengal for weeding and harvesting. In the northern portion of the Monghyr Districts where the Rabi crop predominates and winter rice is negligible, the labourers move off early in October returning in March. There is some amount of migration within the Province, e.g , labourers from the districts of South Bihar proceed to the extensive low-lying fields of Monghyr and Patna. In the other Provinces this seasonal movement of labourers is also noticeable, e.g., every year labourers from the Kaira District, which has a density of 700 to 800 per sq. mile, migrate to Broach District for cotton picking.

In recent years, we have been hearing everywhere of a shortage of agricultural labour, which means that during the cultivation season there is a great scarcity of labourers while in the slack season there is a glut. The old traditions are fast disappearing and the cultivator meets with serious difficulty in securing labourers as he cannot demand any *begar* or free service. Besides this, as Mr. G. H. Desai remarked in his evidence before the Royal Commission on Agriculture, "there is shortage of agricultural labour in Gujrat, not because of its having become more mobile but on account of its having become more independent." As has been stated already, the main objective of the labourer has always been the owning of land and whenever he gets a chance he prefers to be a cultivator on his own account. Among the other causes of this shortage, the time factor is important. Field work in agriculture is governed mainly by weather conditions and within a particular time, a particular operation, e.g., sowing or weeding, has to be performed in a particular region. In former times this difficulty used to be surmounted by the system of mutual aid in cultivation which unfortunately is gradually on the decrease and in many regions

success or failure in cultivation depends to a large extent on the ability to secure labour in time.

Labour has to migrate from regions which have one or two staple crops only, thus furnishing employment for very short periods, e.g., in Saran and Gya which have heavy seasonal migration Rabi occupies more than 60 per cent of the net cropped area. Irregularity of employment in the villages drives the labourer to migrate to towns and other regions where a larger variety of crops keeps them engaged throughout the year.

The Census figures for 1921 show a decrease in the number of labourers but this numerical shortage does not offer the real explanation of the problem of labour shortage in the villages. In many areas, we have found by investigation, that there has been little decrease in the number of agricultural labourers during the past decade, but there has been a distinct fall in the number of labourers available for employment on wages which the cultivator is willing to offer, so labour is scarce at the price which is paid for it. The cultivator, owing to his uneconomic methods of cultivation and the narrow margin of profits which he makes is hardly in a position to offer better wages to the labourer, who naturally is attracted by the prospects of higher wages and regular employment in cities and in areas of low density.

Then again the phrase "shortage of labour" is really misunderstood. As Dr. Mann has aptly pointed out, it should be taken to imply a shortage of labour power, not a shortage of individuals. Efficiency of labour depends to a large extent on the general health of the labourer, which owing to insufficient food and the low capacity for withstanding disease, is mainly responsible for the deficiency in labour supply and their working capacity. Malaria in the Kishenganj Subdivision of Purnea is responsible for labour scarcity particularly during the harvesting of winter rice when the fever index is very high. The Health Survey of eleven villages in the districts of Muzaffarpur and Saran shows that the agricultural labourer is in bed on an average on

19 days during the busy season, i.e., it means a loss of about 10 per cent of labour time. The amount and duration of this sickness rather than the mortality reduces the labour supply. " In one part of Konkan with the most fertile soil, cultivation is poor due to unhealthiness, where the spleen rate is 42 per cent among children, which indicates malaria."

Agricultural wages are paid partly in kind and partly in cash or wholly in kind. In many parts the daily wages for ploughing or weeding consist of four seers of grain and those for harvesting of one out of every 16 bundles reaped. In the Punjab, the hired labourer receives for harvesting four bundles per acre, each bundle equivalent to 16 seers of grain and 24 seers of *Bhusa* (Stewart and Mukhtar Singh). In many cases ploughmen are wholetime servants employed by the year and paid by the month in cash or partly in cash and partly in kind, e.g., 5 maunds of paddy in February and 5 maunds of maize in September. This system is not peculiar to India but is found in other countries, e.g., Scotland. Venn states, " Generally speaking the further north one goes the more the emoluments will be found to consist of payment in kind. In Scotland the system reaches its climax and a labourer may receive anything annually up to 40 per cent of his earnings thus." The method of paying wages in kind was preeminently suitable for an agricultural community as it protected it from the vicissitudes caused by fluctuations in the price-level of food grains, but with the commutation of produce rents into cash rent and the need for making transactions through the money medium, cash wages are fast displacing wages in kind. This change is visible in other Provinces as well. In the Bombay Presidency, " in most cases cash wages are replacing wages in kind. In the last enquiry held in August 1916 into this, it was found that in 990 villages in which enquiries were made, cash wages without supplement were familiar in 233 villages, cash wages with supplement were familiar in 233 villages and grain wages were familiar in 376 villages." (Shirras: Enquiry into Agricultural Wages in

Bombay, p. 3.) In Tinnevelly " one chief peculiarity is the utter displacement of wages in kind by wages in money." (Slater: South Indian Villages, p. 67.)

The rate of wages varies according to the season as well as to the nature of the work. Wages at sowing time are higher than at other times as the period for sowing is limited and there is a great dearth of labourers at this time. Work requiring hard labour, e.g., transplanting or digging is always paid at a higher rate than lighter work, e.g., weeding, which in many districts is done by women. In reaping the wages also vary according to the kind of the crop, e.g., the rate for reaping Marua, which requires less labour is considerably lower than the rate for other crops.

Rate of Wages in 1929.

Districts.	Weeding. Minimum. Rs.	Weeding. Maximum. Rs.	Transplanting. Minimum. Rs.	Transplanting. Maximum. Rs.
Patna ...	0-4-0	0-6-0	0-6-0	0-8-0
Muzaffarpur ...	0-2-0	0-4-0	0-3-0	0-5-0
Saran ...	0-2-6	0-3-6	0-4-0	0-5-0

From this table it appears that though the rates vary from district to district, the difference in the rate paid for weeding and transplanting is marked. It is not possible to graduate agricultural wages according to the efficiency of labour as in the Factory industry, hence the flat rate, with all its inducements to slackness, is the only practicable method for remunerating labour. Semi-piece wages are given in reaping and threshing or winnowing, as in place of cash wages, the labourers are given one bundle out of every 10, 12, or 16 reaped by them. To guard against careless work, the farmer or any one on his behalf is usually present at the reaping or threshing and at times in order to encourage the men to finish the work quickly, particularly if the damp east wind has set in during the threshing of wheat in North Bihar something is given in addition to the stipulated wages as bonus, which is usually in cash. Wages for winnowing are paid

in the form of a certain per cent, say 5, of the quantity winnowed. Variations in the wages rate depend to a large extent on the cost of living of the labourers, e.g., the Sonthali labourer with his few wants is available at a lower rate than the labourer from Saran, and the Dusadhs and Musahars are paid less for the same work than people of higher castes, e.g., the Malahas and Kurmis. Labourers from outside the villages have to be paid more than the local labourers, e.g., in Gya district, at harvest, "village labourers get one out of every 16 sheaves cut while outside labourers get one out of every 18 sheaves *plus* diet allowance which is known as lohra and chhakauti."

During the last 30 years there has been a general rise in the price of food grains but this has not been followed by a proportionate or even a marked increase in agricultural wages in North Bihar, while the gradual supersession of wages in kind by cash wages has further aggravated the seriousness of the situation, so that lured by the attraction of higher wages in mills and factories and in the farms and plantations of North Bengal and Assam, the labourers are migrating to these places and agricultural labour is fast becoming scarce in North Bihar. The following table gives the index numbers of the retail prices of food grains (Common Rice, Wheat, Barley, Arhar) and the results of the Wages Census of 1911 and 1916 verified by personal investigation:

District	Retail Price of Foodstuff 1911	Retail Price of Foodstuff 1916	Wages (Cash) 1911	Agricultural labourer	Ploughman
Purnea ...	100	157	100	175	130
Darbhanga ...	100	152	100	140	125
Muzaffarpur ...	100	151	100	138	160
Saran ...	100	150	100	118	112
Champaran ...	100	168	100	135	110
Gya ...	100	156	100	110	112
Patna ...	100	150	100	143	140

From this table it appears that the wages are far below the level of prices except in the district of Purnea where owing to the malarious climate, the local labour supply is inadequate and the prevalence of Jute cultivation necessitates an influx of labourers from other districts who have to be attracted by higher wages. Then the wages are high in the district of Patna owing to the comparatively higher urban wages brought about by the expansion of the city and the construction of the New Capital. In thè districts of Saran and Gya, the wages lag far behind the price-level and this accounts for the heavy seasonal migration of labour from these regions. Champaran, with its undeveloped agricultural resources shows a very high rise in prices while wages are not all progressive. The Settlement Report for this district also bears out this statement. "The wages of labour have not risen in this district in unison with the rise in prices, either as a normal condition or during years of famine." In the neighbouring district of Darbhanga we find that though the wages of the village artisans have increased owing to a rise in the standard of living among the better classes of people in the villages and towns and the development of industries, "the village labourer earns about the same from year to year." The labourer is engaged in farm work from 170 to 180 days in the year, while he is employed during his spare time in the building industry or in the making of bricks, tiles, ropes, etc. With the decay of the rural industries which formerly offered employment to the labourer during the slack season and owing to the unprogressive nature of wages the labourer is in a state of chronic indebtedness which throws him into the clutches of the moneylender. The emigrant has invariably to borrow small amounts to cover the railway fare and has to pay a very high rate of interest, not less than 75 per cent (for details, *vide* B. B. Mukherjee: The Bihari Mahajan: A Study in Indigenous Banking in Bihar, p. 12). The revival of cottage industries or the development of new rural industries of a non-agricultural type, e.g., Eri or Mulberry Silk-rearing, hand-spin-

ning, or poultry-rearing, etc., will provide supplementary earnings to the labourer and keep him engaged throughout the year.

It has already been stated that the emigrant when he leaves his home in quest of work has no definite place in view and he follows any fellow-villagers to any place no matter whether there is a glut of labour there or not. "Experience in previous years shows them where work is available and they wander about from village to village cutting the crops as they are ready." This aimless search not only entails much loss of time but expense and places him at a disadvantage in bargaining. This "hit or miss" movement of labour may cause an oversupply of labour and cases are not rare when the public peace has been disturbed by the unemployed labourers. Employment Agencies or Agricultural Labour Bureaus should be started to organise this movement of labour, which will collect and provide for "the information as to the character and location of positions open and qualities and locations of men available.' These may help in obtaining concessions of Railway fare for the labourers. In the United States there are such Bureaus which are called the National Farm Exchanges. "Its plan is to ascertain through subagencies the needs of the harvest fields of the several States in their order as the grain ripens. Next it plans to direct the labourers to the places where they are needed and to inform them as to the conditions and nature of their employment." The Canadian Government has constituted a chain of Labour Exchanges which ascertain the amount of labour needed in various districts, the time when it is required and they arrange for the transport of labour on the railways at concession rates. These Exchanges will assist, by bringing about an adjustment of supply to demand, in securing an increase in the wage level and ensuring that an able-bodied labourer gets at least living wages, thus they will perform in an indirect way the work which the Agricultural Wages Boards did in England.

GENEVA AND INDIAN LABOUR

BY

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SUMMARY

The I. L. O. is a new factor in the Indian Labour situation. It is in the interest of labour and of the nation that it should be utilised to the full as an aid to the solution of the labour problem. Its implications from the national economic standpoint should be adequately studied with a view to the adoption of a discriminating attitude on particular items. The separate organisations of labour and capital, and such a political body as the supreme legislature cannot be entrusted with this independent and almost technical responsibility. The position of Indian States in this respect also needs study and definition. To achieve these ends it is suggested that: (1) there should be constituent sectional and regional bodies in the I.L.O., e.g., an Asiatic Section in the main Conference at Geneva and an Asiatic Labour Conference; (2) there should be established in India an Economic Council composed of all interests and of independent expert opinion, with purely deliberative and advisory functions; (3) the Indian States should have a position in this council.

None of the International organisations which before the Great War, concerned themselves with the improvement of the conditions of labour had extended the sphere of their activities to Eastern countries. The only external influence that affected Indian labour conditions till then was that of Lancashire. Since the War, however, the International Labour Organisation at Geneva on the one hand, and the Third International at Moscow on the other, are attempting to bring Eastern countries within the range of

their activities. The International Federation of Trade Unions which has its head office at Amsterdam is another purely working class organisation acting in the same direction. Between Moscow on the one hand, however, and Geneva on the other, its effective influence at present is very limited. Apart from its factious interest in labour as opposed to the capitalists, the Third International is actuated in its Eastern propaganda by a desire to create a favourable world opinion for the political and economic revolution in Russia and to support all anti-imperialistic causes. The activities of Moscow which deserve nothing but the most summary repudiation at the hands of the economist, however, secure some adventitious sympathy from a certain class of politicians and labour leaders in this country. The influence of Geneva on the other hand is hailed by some with an enthusiasm which for the moment at least appears to be too trustful to admit of the justice or need of any criticism. While appreciating to the full the blessings that the I.L.O. has undoubtedly brought to millions of workers, it is intended in the course of this paper to point out some of the present limitations of its beneficent action, particularly in relation to such countries as India. A number of constructive suggestions are also offered which in the humble opinion of the writer are calculated to help in realising more assuredly the high aims of the organisation.

The claims that have been put forward on behalf of the I.L.O. and its mission by persons holding important official positions in that organisation, have varied with the time and the occasion for which they were meant. The ultimate goal[1] of the I.L.O. is to organise a full-fledged international legislature for regulating labour conditions with the help of effective sanctions. In the meanwhile the immediate aim of the organisation is said to be[2] ' to

1 Arthur Fontaine Chairman of the Governing Body, I.L.O., August, 1929, in ' I.L.O., 1919—29,' 1930.

2 Gino Olivetti, Vice-Chairman, Governing Body, I.L.O., October 1929, in ' I.L.O., 1919—29,' 1930.

complete the significance of the Peace Treaty by guaranteeing the dignity and liberty of human labour by international convention.' The basic principle for the maintenance of this dignity and liberty is to be that 'Labour should not be regarded merely as an article of commerce.' The methods[3] of regulating labour conditions with a view to the adoption of this principle are specified as follows:

(1) Labour should not be regarded as merely a commodity or article of commerce.

(2) The right of free association should be conceded.

(3) Payment of adequate wage to lead a reasonable standard should be assured.

(4) Weekly rest of 24 hours, preferably on Sundays, should be insisted upon.

(5) Child labour should be abolished and the labour of young persons should be restricted.

(6) Equal pay for equal work should be secured as between men and women workers.

(7) Labour in all matters should receive an equitable economic treatment.

(8) An efficient inspection of labour conditions should be organised.

The reasons that led the framers of the Peace Treaty[4] to attach such overwhelming importance to the physical and moral well-being of the industrial workers in all countries are noteworthy. In point of fact the labour clauses of the Versailles Treaty[5] represent the combined effect of three forces: (1) the socialists' and humanitarians' efforts to see just and humane conditions estab-

3 Article 427 of the Treaty of Peace, Versailles.

4 Article 427 of the Peace Treaty.

5 International Labour Conference, 1921, Third Session, Geneva, Report of Proceedings, Part 2, p. 45.

lished for the working classes of the world; (2) the international trade unionists'[6] endeavour to equalise labour conditions in competing countries; (3) and the desire of the allied powers to take steps to ensure social justice as an indispensable basis for world peace. How far any of these particular purposes have been served by the influence of the I.L.O. during the last ten years, it is very difficult to say. It cannot, however, be denied that the I.L.O. has been successful in mobilising humane public[7] opinion in support of labour reform and that as a result of its activities the necessary impulse and atmosphere have been created. Even if we regard the I.L.O.'s achievements in the field of collection of authoritative information about labour conditions in different countries, they would justify the existence of the institution. Both the direct and the indirect influences of the I.L.O. have already been felt in India and on the whole they have worked till now for the good of the worker and through him of the community. In view of the removal of the most glaring of obstacles in the way of legitimate labour improvement in India on the one hand and of a growingly ambitious attitude[8] on the part of the I.L.O. on the other, a time has come when an attempt should be made to understand the full meaning and implication of the latter's work.

In the first place it may be asked whether there are any absolute standards of justice and humanity which, it is desirable to adopt irrespective of the general level of economic progress in a country and of the state of the particular industry[9] in which a

6 H. J. W. Hetherington, 'International Labour Legislation.' B. G. Lowe, Ph.D., 'The International Protection of Labour.'

7 Albert Thomas, Director General, I.L.O., in 'I.L.O., 1919—29.' The first ten years' work has only indicated the possibility of work that may be achieved by following up the clauses and the preamble of Part XIII of the Peace Treaty.' Ibid.

8 M. Bottai, Italian Representative's Speech at the Twelfth Session, 1929.

9 Speech of the Japanese Employers' Delegate at the Thirteenth Session of the I.L.C., 1929.

worker is employed. Those who agree that the standard of life in a country is relative to its general economic progress will find it hard to support the I.L.O.'s attempt at establishing substantial uniformity in labour conditions all the world over. The privileges of labour constitute an element in their standard of life and naturally they cannot be decided upon without reference to the state of industrial life in general. The contention[10] that a higher standard by making for higher efficiency will itself improve the industrial situation and thereby do more than justify its adoption is only a half-truth. The physiological and psychological characteristics of labour, efficiency of organisation and of other agents of production, the opportunities of industrial expansion are only a few of the many considerations that may thwart the expected rise in efficiency as a result of the increased privileges of labour. The exhortation[11] often addressed to waverers in this respect that an improvement in the conditions of labour is bound in the long run to reflect itself in the prosperity of the nation, as the community can have no interests divergent from those of its workers, is mostly a sentiment. In so far as it contains any argument at all it really cuts both ways. It can with equal plausibility be claimed that neither the nation at large nor the producers in particular have any interests essentially divergent from those of the workers and hence in consulting the legitimate interests of industry the ulterior interests of labour will surely be promoted. Such an argument should be interpreted not as a mere retort, but granting the existence of a free and vigorous labour movement and a constitutional and popular government in the country it may be claimed that it contains more of the substance of truth than the rival view which in blind and sentimental optimism would proceed with restrictions on industry and fondly believe that thereby its and the nation's interests may in some providential fashion be served.

10 I.L.C., Eighth Session, Report by the Director.

11 B. G. Lowe, 'The International Protection of Labour.'

This statement of the case against uniformity is sometimes met by an assurance[12] that the standards which the I.L.O. will attempt to enforce will approximate to those prevalent in the less advanced countries. Such an assurance for one thing lacks the support of practical action. The standards in all important respects adopted by the I.L.O. are nearer to those of the more advanced than the more backward countries. This, moreover, is bound to be the case. The establishment of the I.L.O., as mentioned above, is mainly the outcome of international trade union agitation for equalising competition and thus reducing the chances of workers in advanced countries being required to lower their standards as a result of the growing competition of the industries in the backward or advancing ones. The socialistic and humanitarian element by the superficial catholicity of its creed has always allowed itself to be swamped by the combined forces of trade unionism and imperialism.

That in the creed of substantial uniformity lies much danger to the legitimate industrial aspirations of the backward and advancing nations is now realised in various countries. In Germany and Italy,[13] not to mention such young countries further afield as Brazil,[14] the I.L.O.'s activities have often provoked much adverse criticism, even from those who are undoubted friends of the International labour movement, and hold responsible posts in the executive of the I.L.O. The translation into concrete shape of the principle of humanity and social justice, which is the fundamental basis of the moral idea behind the I.L.O., is no mere politician's or humanitarian's job. It is necessary for that purpose to take into account all the factors internal and international affecting

12 H. J. W. Hetherington, 'International Labour Legislation.'

13 Gino Olivetti in 'I.L.O., 1919—29' I.L.C., Report of the English Session, page 496; and Speech of Mr. Bottai, Under-Secretary of State in the Ministry of Corporations of the Italian Government, at the Twelfth Session of the I.L.C., 1929.

14 Director's Report to the Fourteenth Session, 1930.

the present state and future prospects of a nation's industries.[15] All the privileges granted to labour in cash and in kind, including in the latter class even such an advantage as leisure, constitute an element in the costs of industry. To attempt to establish substantial uniformity of labour conditions in the various countries of the world is to attempt to equalise costs of production in their industries. Viewed particularly from the standpoint of the advanced countries, and specially from that of Great Britain which nation more than any other dominates the Geneva atmosphere, such an equilisation is expected to mean a practical immunity from serious competition of industrially backward countries in future. Uniformity of labour legislation pursued without reference to the conditions and ideals of particular nations spells the maintenance of the *status quo* in respect of the relative industrial position of nations.

This aspect of the I.L.O.'s influence requires emphasis not only in the interest of legitimate national progress but also in that of the ultimate success of the I.L.O. on the one hand, and the well-being of labour in backward countries on the other. Anything in the action of the I.L.O. that savours even distantly of its serving as a tool in the hands of the advanced industrial and imperialistic powers will mean its material, moral and, in course of time, physical ruin. This fact is being realised by the I.L.O. executive[16] but the main[17] body of influential opinion as represented by the delegates of the big powers shows no signs of its appreciation of national peculiarities. Under these circumstances the director is

15 Speech of Mr. Kamiya, Japanese Employers' Delegate, at the Thirteenth Session of the Conference, 1929.

16 Report of the Director and Speech of the Deputy Director of the I.L.O. at the Fourteenth Session of the I.L.C., 1930.

17 Proceedings of the Thirteenth Session of the I.L.C., 1929, with special reference to the proposal recommending the right of association to foreign seamen. Also Proceedings of the Fourteenth (1930) Session.

left with an appeal[18] that the members should look upon the I.L.O. standards as part of the natural and unchangeable factors of production and that any attempt to promote the interests of a nation's industries by departing from the Geneva standards is against the mutual undertaking on which the Peace Treaty is based. These arguments, obviously, are neither just nor sound.

The Peace Treaty, Part XIII of which constitutes in effect the articles of association of the International Labour Organisation, was based on a number of assumptions all of which must be read together if a just and correct perspective of the Geneva activities is to be gained. The Treaty recorded[19] the fact that conditions of labour existed which were calculated to give rise to social unrest so great as to endanger the peace and tranquillity of the world; hence its framers suggested the establishment of the I.L.O. to secure social justice as a basis for world peace. The authors of the treaty, however, were conscious of the fact that there were other causes equally if not more powerful that endangered the peace of the world and these they tried to remove by means of the establishment of the League of Nations. The covenant of the League speaks of the promotion of international peace and security by the acceptance of an obligation on members not to resort to war and by the prescription of open, just and honorable relations between nations. Acting under pressure of heavy defence budgets something has been done, though not so much by the League machinery as by individual bilateral and multilateral agreements, to promote the cause of postponing war. The aim of establishing open, just and honourable relations however remains not only unattained but so far as the position of the backward countries is concerned, even unattempted. When the League has failed to remove other and more important causes of interna-

18 I.L.C., Eighth Session, Report, p. 426.

19 Part XIII. Peace Treaty, Section 1; H. J. W. Hetherington: 'International Labour Legislation.'

tional insecurity, for the I.L.O. and its partisans to ignore the adequate importance of the national factor in the psychology of peoples is not justifiable. Countries like Italy, Germany and Japan are expressing their feeling of restiveness and nobody need be surprised if the feeling gets wider and deeper in times to come.

Those who are interested in the permanent success of the I.L.O. must, therefore, work for two ends. In the first place it must be clearly recognised that the nature and degree of international co-operation secured in the I.L.O. will be conditioned by the extent to which just, open and honourable relations are established amongst the members of the League. For this purpose it is highly desirable that the League should provide some simple yet effective machinery by which outstanding differences between members, particularly those who are related to each other as an imperial power and a dependency, should be reviewed in a spirit of justice and broad-minded statesmanship. In so far as the League succeeds in justifying its existence as an arbiter between powerful and backward nations, only to that extent and no more will there be the necessary sympathy for and trust in the work of the I.L.O. Secondly, even with the best success of the League's activity in this respect the legitimate claims of particular countries to translate the principle of humanity and social justice into concrete measures must be effectively secured. The constitution of the I.L.O., no doubt provides[20] for special cases arising out of undeveloped economic conditions; but, so far as a substantial freedom from subjection to world uniformity is concerned, this clause is not calculated to meet the case presented by countries in an intermediate state of industrial development such as India.

It is possible to combine loyalty to the League ideal with a proper feeling of patriotism. This can be done by organising special sections in the International Labour Conference and by instituting, in addition to the present Conference at Geneva other

20 Articles 405 and 427 of the Peace Treaty.

regional[21] conferences of nations whose industrial conditions are relatively similar. The promotion of such section committees and regional conferences as integral parts of the main organisation would test the bona fides of the I.L.O. in this respect. There can be no rigid standard of justice and humanity; the state of national economy indicates the limits of what in practice may be expressed by these principles. Hence it is that an arbitrary standard even though recommendatory,[22] laid down by an international organisation dominated by powerful countries is most unsuited if not to the letter at any rate to the spirit of the Peace Treaty. The ultimate ends both of social justice and international peace will be promoted by an elastic rather than a rigid system of labour regulation. It is this argument that justifies, nay necessitates, the proposal to form sectional and regional constituent bodies. Anything that is not unanimously agreed upon by a constituent section or conference should not be adopted by the main conference either as a convention or a general recommendation. Such a course, besides its being in keeping with the just aims of the Peace Treaty, is calculated to secure more willing and lasting support for the I.L.O. Exchange of ideas and co-ordination of effort would be promoted more effectively through the opportunities thus offered.

It is not difficult to appreciate the viewpoint of some of the representatives of Indian Labour when they rank themselves along with the most wholehearted supporters of the zealous action of the I.L.O. The argument from expediency is obvious. It must also be recognised that the industrial and social experience[23] of the West concerning especially the misery of the workers, the injustice done to them and the consequent conflict between classes should serve as a timely warning and aid to industrially backward

21 Director's Report with regard to the Pacific and Scandinavian countries.

22 Article 405 of the Peace Treaty.

23 H. J. W. Hetherington: 'International Labour Legislation.'

countries such as India. The I.L.O. indeed has a very important role to play in this connection. Apart from this obvious beneficence of the I.L.O., however, our labour leaders must not lose sight of the fact that anything that unduly handicaps the industry of the nation must in the long run redound to the detriment of the labouring classes. We as a nation are at present engaged in forging a discriminating yet constructive policy of national industrial progress. Much further effort at surveying the possibilities of extending the application of this policy is called for. In the pursuit of this aim, all precautions ought to be taken to see that the consumer's and the tax-payer's sacrifice is justified by the real gains obtained by the nation. With this end in view a sympathetic and helpful yet efficient regulation of the nation's industrial organisation ought to be undertaken by the state. The industrial workers as a class constitute an important social and economic interest in the country and their just claims ought to receive full satisfaction at the hands of the community. An attitude, however, of wholesale[24] class co-operation with international labour groups may embarrass, if not altogether endanger, the economic progress of the country and thus indirectly yet certainly hit labour itself. That the workers of all classes should have a strong assurance that their claims are being impartially and sympathetically considered and that all other means of improving the condition of industry, including state regulation of production wherever necessary, are being resorted to is only reasonable. This can be secured by means of a body like the National Economic Council suggested later on in this paper.

It is hardly necessary to remind our labour leaders who have now established contact with all shades of labour opinion in advanced countries that there is no single universally accepted significance of the phrase 'exploitation of labour.' Even in the most democratic and industrialised countries there is an insistent and

24 M. Daud : Workers' Delegate at the Thirteenth Conference, 1929.

powerful cry that labour is being exploited. To attempt to avert exploitation of labour by agitating for standards of labour regulation which approximate to those prevalent in thoroughly industrialised countries is calculated in the long run to defeat its own purpose and lead to assured 'exploitation' of the backward nations at the hands of the advanced ones. This is especially true in the case of a country like India which has a government which is very far yet from being a truly national[25] government. Its apparent[26] support of the so-called interests of the capitalist, the worker, the consumer, and the tax-payer is not always unmixed with anxiety for the interests of Great Britain. The state in India can hardly be relied upon to play its role as the supreme directing and co-ordinating organisation for the promotion of all legitimate national interests. The special treatment secured by Japan, a comparatively advanced country, over the question of the adoption of the Washington convention, is a significant instance in this respect. The development of a spirit of class and group[27] loyalty at the sessions of the I.L.O. is of ominous significance from the nation's standpoint. In industry as in politics international co-operation ought to be based on national autonomy and progress. It is desirable, therefore, that the representatives of employers and employees should confer together with independent and representative national opinion before they take up attitudes at Geneva or at any other constituent bodies that may be organised in future. Such opportunities can be supplied only by the organisation of a central economic council for the nation.

In the light of this analysis of the position of India in relation to the I.L.O. the following suggestions are made not as parts of a full-fledged scheme but as a basis of discussion:

25 Mr. N. M. Joshi, at the 1st British Commonwealth Labour Conference, London, 1925.

26 Sir P. Ginwala's Speech in London after relinquishing presidentship of the Tariff Board.

27 Report of the Government of India's Delegates, Seventh Session, 1925.

(a) Firstly, it is desirable to set up a National Economic Council in India to consider, among other questions of industrial and economic policy, this one of regulation of labour conditions. This body should be representative of all interests, viz., the producers, including employers and workers, the consumers and independent experts. Heads of appropriate government departments should have seats on this body, and an official secretariat of the nature suggested by the president[28] of last year's session of the Indian Economic Conference should be organised. After full deliberation resolutions should be adopted by the council. They should not, however, be binding on members organised as separate interests, nor on the national legislature. To afford opportunities for a comprehensive and informed discussion and to give a lead, rather than to bind members by numerical majorities should be the purpose of this council. As the council is to partake more of a deliberative than of an executive body its numbers should not be too narrowly restricted.

(b) Secondly, the necessary and inevitable amount of latitude from the Geneva decisions should be claimed and availed of, with a view to promote the legitimate aspirations of national industry, which include in a democratic state the just aspirations of all classes. With a view not to detract from the international character of labour reform and on the contrary to consolidate the foundations of a lasting international co-operation in the cause of social and national justice the proposal to organise special preparatory and auxiliary sections at Geneva and to hold constituent regional conferences, e.g., an Asiatic Labour Conference should be supported.

Whatever divergences in respect of social and economic development there may be between the different parts of India it cannot be maintained that in these respects the Indian States as a

28 Speech of Mr. N. S. Subba Rao, published in the Indian Economic Journal for January 1930, pp. 659-60.

class differ substantially from the rest of India. It can on the contrary be borne out by facts that socially and economically the whole of India is one unit. How to devise the requisite political machinery to give practical expression to this unity and how to introduce it with the least injury to legitimate state interests is one of the most difficult questions facing constructive statesmanship in India. With the many implications of this issue we are not concerned here. With a view, however, to promote uniformity in labour legislation within the borders of India the following proposal may be made:

(c) As politically and economically the Indian States form part of India, a fact which is emphasised by their position in relation to the League of Nations, their representatives should be included in the National Economic Council. In particular the industrial states should be encouraged to co-operate with the rest of India in this respect. The resolutions of the Council will not be binding upon them as they are not binding upon representatives of other interests. Any further integration, however, between the States and the central Indian government, as for instance, in respect of tariffs and other forms of taxation, should in some measure be made conditional on the States' accepting a defined position in relation to all-India labour legislation. The necessary steps in this direction should be taken by open conferences in co-operation with the Political Department, rather than by the 'persuasive' action of the latter alone. If a body like the Council of Greater India, suggested by the Simon Commission comes into existence the function of introducing uniformity of labour regulation within the borders of India should be one of the first topics to attract its attention.

There cannot be any doubt but that the League of Nations, the I.L.O. and other periodical and occasional international conferences, e.g., the World Economic Conference, that meet at Geneva do a lot of present good and hold even a greater promise for the future. We must not, however, ignore the fact that

materially and psychologically the world has not sufficiently advanced[29] to a stage where uniformity of social, economic and political conditions may with safety or justice be established. Much constructive work, therefore, to supplement Geneva action is necessary. The present paper is an attempt to indicate how in respect of labour regulation in India such an endeavour may be made. Varied external forces are at present attempting to bring India within the orbit of their respective influence. If then we are not to leave the internal tendencies of discontent and disintegration to shape into extravagance and disorder under pressure of powerful international propaganda a representative Economic Council like the one suggested in this paper must soon be established to help in the process of rational adjustment. International co-operation must be based on the development of international psychology, which is not likely to emerge in its healthiest form so long as there are avoidable differences of political and economic status between nation and nation.

29 M. Colijn (Netherlands) in 'The Economic Consequences of the League.' Also Dr. Andress Hermes, in the same.

REFLECTIONS ON THE THEORY OF DISTRIBUTION

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The object of this paper is merely to indicate some of the important points of disagreement on the Theory of Distribution as presented by leading economists.

I

In his recent "Review of Economic Theory," Dr. Cannan has raised once more doubts about the propriety of the traditional classification of the shares in the National Income under the heads—Rent, Interest, Wages, Profits.

His grounds of opposition are briefly these. It is not conducive to definiteness to make these terms bear in theory meanings, which do not belong to them in ordinary usage and discourse. (303—08.) The quantitative units in relation to which the incomes from the several Agents of Production are expressed lack symmetry (300).

(a) There is no intrinsic distinction between income from Land and income from Capital. The "original" powers of the soil cannot well be distinguished from the other powers conferred on it by human labour and improvements, and their relative importance is insignificant. As for the element of "indestructibility," Ricardo himself abandoned it when he applied the Rent concept to mines. (241—246.) Although, again, the superficial extent of land may be limited, its productive power is capable of indefinite

improvement[1] and disparities of quality hold good of all concrete embodiments of capital. (229; 237—39; 249.)[2] The historical and social accidents which gave land its prominence in former times have ceased to exist. In conclusion, Dr. Cannan amalgamates the two classical agents into Property, the income from which becomes interest when expressed as a ratio to its capital value.

(b) Dr. Cannan next points out that the distinction between profits and the other shares is a needless confusion of diverse elements particularly interest and earnings of management. The earnings of management can be distinguished from wages only by an unwarranted change in the basis of classification—from source or destination to the manner of earning an income (289). To attempt to isolate an element of rent in the earnings of management is also futile. To describe profits in the American way (Seligman, Principles, 11th Ed., p. 355), as an excess over all expenses of production including interest and earnings of management is to call into existence a metaphysical abstraction. (308—12; 315—18; 358—62.) The existence of the small but independent worker presents another difficulty of the same nature. The dual basis of calculation in ordinary business practice—namely the turnover and periodic income-ratio to the aggregate investment—does not conduce to clearness in comparisons.[3] The conclusion is that the only shares which merit attention in theory are Income from Labour and Income from Property.

1 See Chapman's distinction between evolutionary and non-evolutionary laws of returns in industry (Outlines, 29th edition, Chap. 12) which Dr. Cannan does not think much of.

2 Consider Marshall's statement in contrast "... land has an 'inherent' income of heat, and light and air and rain which man cannot greatly affect and advantages of situation, many of which are wholly beyond his control (Principles, 8th Edition, 629). See also page 634 for original and acquired properties of land and their relative importance.

3 Marshall, it will be recalled, speaks of the "scientific necessity for treating differently profits and ordinary earnings when . . . discussing *temporary fluctuations and individual incidents*" (Italics mine, 619-20).

Marshall's concept of "quasi-rent" is described as "useless in the explanation of distribution." It is important to remember here that the distinction between short and long periods with which Marshall cut so successfully the Gordian knot of the Theory of Value does not find a place in the thought of Dr. Cannan. His sole preoccupation is with the law of normal shares in distribution. The whole concept of quasi-rent, on the other hand, arises from the lack of correspondence between short-period price and the normal expenses of production at the margin and the inevitable analogy it suggests to price determining the rent (see Footnote, Principles, p. 424). This misunderstanding ensues in some serious statements. "But Marshall's principal aim was always the explanation not of distribution but of values." And again, "Whether classification on this basis can be made useful in the explanation of values is arguable, but it would certainly be useless in the explanation of distribution."

II

The rate of remuneration of any Agent of Production tends—we are told—to equal the net product due to the additional increment of it applied at the margin. This assumption of a specific product ascribable to any one agent has not yet commanded universal assent. Professor Taussig, it will be recalled, rejects it and makes his Theory of Distribution depend on "a basic and independently determined rate of interest" (Principles, Vol. 2, 195-196; 200-01). Even with those who agree with it, the further development of the theory does not pursue the same lines.

"The notion of the marginal employment of any agent of production" says the overcautious Marshall, "implies a possible tendency to diminishing return from its increased employment." This tendency is then distinguished from the similar tendency to diminishing return from land which is inevitable even when the increased resources are *well-directed.* Prof. Pigou is more definite on the importance of this law. "The law of diminishing returns to in-

dividual factors of production is quite different from this, and is valid, not merely in some conditions, but, apart from a few unimportant exceptions (?), in all. . . . The more of it there is, the smaller is the quantity of other factors, with which to co-operate and from which to derive assistance, that each new unit finds available" (Economics of Welfare, 704). Here again, Professor Taussig hesitates to accept this view (Principles, Vol. 2, 13). But it is arguable against him that after making a distinction between increase of capital along established lines on the one hand and inventions and improvements on the other, he tends to confound the two.

At this point, Marshall and Pigou part company. In foot-note 2, page 518 and foot-note 1 to page 409, Marshall seeks to make clear how the assumption of a specific product is reasonable because a small change in the quantity of one factor is not likely to affect the productivity of other factors, in particular the factor of organisation. But Prof. Pigou redefines the net product in a manner which throws overboard this limitation. The net product—runs the statement—" is equal to the difference between the aggregate flow of physical product for which that flow of resources, when appropriately organised, is responsible and the aggregate flow of physical product for which a flow of resources differing from that flow by a small marginal increment, when appropriately organised would be responsible. In this statement, the phrase 'when appropriately organised' is essential." The reason for this change is made convincingly clear in the foot-note to Appendix 3, pp. 931-32, Economics of Welfare.

It is true that this re-definition of net product occurs in connection with a discussion of the distribution of resources in general among the several productive activities of a community—and not the application of an increased quantity of any single factor. But it is difficult to make out any distinction of principle between the two cases. We cannot consequently postulate a tendency to diminishing return and base on it the possibility of a specific pro-

duct. On the contrary, as in the particular problem discussed by Prof. Pigou, we must accept the probability that increasing returns or constant returns may give us an equality of net products at different levels (pp 114—30). Thus the critic is not altogether unreasonable when he says, "The theory that people tend to receive as their remuneration the marginal net product of their services amounts, when analysed, to no more than that they tend to get what they tend to get."[4]

III

When we pass on to the other side of the theory—the relation between the demand-price and supply-price of an Agent of Production, we note a similar inconclusiveness. Marshall begins indeed with words which are a grave warning against seeking a close correspondence in the theory of value when applied to commodities and to the Agents of Production particularly labour. "The keynote of this book" says Marshall in introducing the Theory of Distribution, "is in the fact that free human beings are not brought up to their work on the same principles as a machine, a horse or a slave."

Yet, the final conclusion sounds different. "... An increase of wages" we read "... increases the strength, physical, mental and even moral of the coming generation; and that ... an increase in the earnings that are to be got by labour increases its rate of growth; ... there is a certain level of the demand-price which will keep them (vigour and numbers) stationary; that a higher price would cause them to increase and that a lower price would cause

[4] Rowe (Wages in Theory and Practice) criticises the theory from a different standpoint. While accepting marginal productivity as a mere background, he shows that the influence of the organised action of trade-unions after 1884 has determined the course of wages in certain industries far more than any other factor. He argues that wages in excess of the marginal product tend to evoke that productivity by putting the pressure on employers, a small percentage of permanent unemployment is therefore a sign of industrial health!

them to decrease." Thus the quantity of labour and the number of labourers are made a function of the price paid for this Agent of Production.

As for any immediate increase in efficiency due to increase in wages, we may observe that it is a consequence of the general poverty of the world only; that after a certain standard of life is reached and for the higher grades of work, efficiency loses its connection with income; that the present advantages of high income in intelligence, culture, etc., will tend to disappear as education and other allied opportunities are made free of access; that the quality and quantity of labour are matters predominantly of habit; that the non-economic incentives in labour are very important in volume; that no definite statement can be made about the elasticity of demand for income in general.[5]

As for the relationship between numbers and wages, it would be more accurate to believe that in the past and to a large extent in the present, non-economic causes, customs and institutions have determined birth-rates far more than variations in earnings; that the influence of economic causes has been observable on the negative side only—in increasing death-rates—particularly among infants and in shortening life; that the spread of birth-control among the lower ranks of society will soon deprive economic causes of

5 Economists tend to regard the efficiency of the worker as a voluntary and conscious product of his will; they have spoken of the importance of organisation largely as a matter of the technique of production. But the light which the recent advance of Industrial Psychology has thrown on the significance of Vocational Selection, Fatigue, Light, Temperature, Air, etc., makes it abundantly clear that the net product of labour could be made surprisingly larger by the adoption of many simple improvements which could evoke additional exertions without adding an iota to fatigue. For striking examples, see, Drever : Industrial Psychology, Chap. 7; Harrison : Psychology of Production, 87—89. For Vocational Selection. see Thouless : Social Psychology, 298—320; and Myers : Industrial Psychology. If efficiency is thus capable of a large involuntary and even unconscious increase, the concept of wages as the return to marginal efficiency becomes still more vague.

their present power over the numbers of a large section of the world-population.

Henderson is more wise when he says, "Experience has at least destroyed the view that there need be, or even is in Western countries, a relation between real wages and the numbers of people so close and direct that an improved standard of living must be temporary only, doomed to destroy itself by the increased population it engenders. One may perhaps go further and say that it is doubtful even in what direction changes in remuneration will influence the aggregate supply of labour" (Supply and Demand, 146-47). The last sentence is particularly noteworthy.

Equally surprising is the attempt of Marshall to force the supply-price of Capital into the frame of his Theory of Value in which the forces of supply and demand are made to play in the long-run co-ordinate parts. Says Marshall:

"We have seen that the accumulation of wealth is governed by a great variety of causes: by custom, by habits of self-control and of realizing the future, and above all by the power of family affection: security is a necessary condition for it, and the progress of knowledge and intelligence furthers it in many ways. But though saving in general is affected by many causes other than the rate of interest; and though the saving of many people is but little affected by the rate of interest; while a few who have determined to secure an income of a certain fixed amount for themselves or their family, will save less with a high rate than with a low rate of interest: yet a strong balance of evidence seems to rest with the opinion that a rise in the rate of interest, or demand-price for saving, tends to increase the volume of saving." A little further, it is pointed out that these changes in the volume can take place but very slowly.

We need not here examine the psychological foundations of what has been called the law of future estimates. It is clear that

the conclusion of Marshall rests on the ground that psychological forces like the fear of old age and inability to earn, the social and other compulsion to make provision for future expected contingencies, fear of destitution of children before they are set on their legs, the miser's transfer of interest to the hoard itself, mere emulation and pride in accumulation, etc., are in the aggregate of less importance in the mind of the representative saver than mere family pride which desires to assure a perpetual economic status for the family. In contrast, we may cite here the opinion of Weiser (Allan & Unwin, Social Economics, pp. 35—39) who makes a distinction between the " model social economy " and the " weak economy " in the latter of which alone the undervaluation of the future is present. " The power of social custom " says he, " is now sufficient in most cases to hold within bounds all such luxury as is bound to endanger future well-being . . . . . Altruism carries the day against egotism . . . One may thus safely say that it is a sound maxim among all peoples of normal development to appraise alike the present and the future." The social determination of individual action is indeed the central theme of social psychology and ethics to which the non-English economists are giving a just prominence.

Prof. Taussig, as noted already, makes this time-preference the corner-stone of his Theory of Distribution (Principles, Vol. 2, pp. 21-22; " From this . . . improbable." Pp. 26-27). " The chief evidence " he says, " of such a fundamental supply-price has been found in the steadiness of the rate of interest during the modern period " (Ibid., p. 201). Against this, we may set the conclusion of a thorough psychological analysis by Professor Dickinson, who is a thorough-going behaviourist (Harvard, Economic Motives, 256—258; 268-69). " We therefore look upon providence as a *growing* thing and time-preference as *variable* with time, place, and geography, but *tending to diminish* in any people whose native learning capacity is high. Risk, however, may increase except as far as the actual hazards . . . . are reduced by collective action . . .

Not merely growth of knowledge, but positive propaganda is *likely to raise* the general level of providence."[6]

Henderson is again more cautious in his conclusion—" It is a matter of legitimate doubt whether it is necessary to pay interest to secure a supply of capital; there is no doubt at all that it is necessary to charge interest to limit the demand for it . . . There is no need to be dogmatic upon any of these points. The psychology of saving is both complex and obscure. Our conclusion must be the negative one that we have insufficient evidence to warrant the assertion that the particular rate of interest which happens to prevail is a measure of the sacrifice involved in saving even in the case of what we might regard as the 'marginal saving.' And if we cannot assert this, we must be careful not to assume this as the basis of other arguments, or as part of the general analysis of price or exchange value (Supply and Demand, 130; 134).

IV

The fact that the productive power of man has increased enormously in the course of history and that even with reduced exertions his produce is today very many times greater than it was brings into the foreground another important problem of distribution, namely, the changes in the absolute shares of the Agents of Production and their relative shares in the aggregate output. For the sake of simplicity of argument, we shall adopt the twofold classification of the co-partners in production suggested by Dr. Cannan, to whom we owe also the prominence given to the present aspect of distribution under consideration.

The propositions we have to consider in this connection are two:

(1) The absolute share in the aggregate output of either

6 It will be recalled that Prof. Pigou regards this time-preference as 'irrational' and presumably as likely to disappear with the advance of the species. See also Smart, Theory of Distribution, pp. 205—209.

Property or Labour will increase if the elasticity of demand for the services of either is greater than unity.

(2) The relative share of either Property or Labour will increase if the elasticity of demand for the services of either is greater than the ratio of the aggregate output before the change to the share of that output enjoyed by the other Agent—which is of course always greater than unity (Economics of Welfare, Part 5, Chap. 3, Sec. 8 and particularly Foot-note to p. 710).

To take up the first proposition. "Where two factors" argues Prof. Pigou, "are partly co-operant and partly rival, an increase in the quantity of the one will augment the reward per unit and therefore, the absolute share of the dividend, enjoyed by the other, if the relation of co-operation between the two factors is more important than the relation of rivalry . . . The question is . . . . not one to which an *a priori* answer can be given . . . If we consider realistically—and, of course, when what is contemplated is a general increase in the supply of waiting and uncertainty-bearing, we must imagine the new supplies to be used in an all-round addition to the existing capital instruments—it is apparent that their work is mainly co-operant[7] . . . . It is not, in the present conditions, practically possible that a cause other than inventions and improvements . . . operating to expand the national dividend by increasing the supply of capital generally should at the same time lessen the real income of labour." We may, for the present, grant the argument as to the effect of an increase of capital.

[7] This conclusion will be true—if the elasticity of demand for the commodities to the production of which larger capital is applied is very high or if the cheapness of one class of commodities means an increased demand for others'; or granting that the elasticity of demand for income in terms of effort-price is less than unity (an assumption which we find frequently made by Pigou especially in dealing with the effects of taxation and which is logically not verifiable) if the increased leisure means a corresponding employment of others; or if the new capital is only slowly introduced.

Pigou's conclusion regarding the elasticity of demand for labour raises more difficulties. We are told that there is a certain field of personal service in which labour requires no aid from other factors (note the implication that 'personal services' always or on the whole augment economic productivity) that on account of an increase of labour the reward per unit of capital and consequently the quantity of savings and investments from abroad will increase that the increase in the national dividend due to increased supplies of labour will augment the capacity to save. "Hence" concludes Pigou, "the elasticity of the aggregate demand for British labour is greater than the elasticity of that part of the demand which depends on British capital alone. It is indeed so much greater (?) that, with any reasonable assumption as to this latter elasticity, the elasticity of the aggregate demand is practically certain, from the standpoint of a long period, which is alone in question here, to be immensely larger than unity." Here is a statement which requires further examination before it can be accepted as a sound basis for economic theory (p. 712).

To consider now the second proposition. It is clear from it that, the larger the share of the aggregate output which an Agent already enjoys, the larger must be the elasticity of that Agent if it is to retain or increase its relative share of the output. This conclusion becomes very interesting in the light of the following estimate made by Dr. Cannan and largely borne out by American and English Statistics of the relative position of Property and Labour.

"The measurement of the percentage deducted from the total for shares other than earnings is also surrounded by difficulties, but it would be simply grotesque for any one to suggest that changes in the percentage of deductions can, in fact, have had anything like as great an effect on the general level of earnings as the change in the productiveness has had. A not unlikely estimate of the percentage of deductions in modern times is 35 per cent leaving 65 per cent for earnings."

If this estimate is in the neighbourhood of truth, then, the elasticity of the demand for labour must exceed $\frac{100}{35}$ i.e., must be more than 2.8 if it is to retain its present relative position in the distribution of income. It is on the very face of it improbable that the elasticity of labour can be anywhere near this high figure. If the rate of increase indicated as safe by this figure were actually to come into existence in the supplies of labour, the level of earnings would fall down very quickly indeed. We may therefore expect that in the absence of any inventions and discoveries, property will improve its position at the expense of labour if the latter continues to increase and the former remains constant or does not increase at the same rate. But as a matter of fact, the improvement in the position of property may set in motion the forces of accumulation to a certain extent and restore or establish an equilibrium not much different from the one which it will displace.

A further step in this inquiry would be to ascertain the nature and permanence of the forces which determine this equilibrium in distribution in each particular community and the world-community as a whole.

An adequate answer to this question would require a very elaborate inquiry. For the present purpose, however, we must content ourselves with a few general statements. The equilibrium will depend on the pattern of the distribution of income—not among the Agents of Production—but among the individual members of the community who receive and dispose of the aggregate income. In other words, it will depend on the distribution of natural ability and intelligence, which cause unexpectedly huge variations in the earnings of persons[8], on those laws of inheritance

8 Prof. Taussig has some interesting remarks to make on this question Vol. 2, pp. 130—134. But he takes no aid from the recent advances of Experimental Psychology in regard to measurement of 'intelligence' or general ability and his discussion is inconclusive. The innate inequalities-making allowances for all special circumstances of each inquiry are revealed to be unexpectedly wide. See the books already mentioned.

and other social institutions which either concentrate or diffuse wealth; and on those customs, habits and national character, etc., which make one people frugal and another prodigal. A scientific inquiry into these facts would surely reveal that, beneath all the eddies on the surface of human life, there is a remarkable continuity and stability in the economic texture of every society from decade to decade and generation to generation. These subjective and objective forces together with the ever restless and unsatisfied spirit of invention and discovery have determined that flow of the stream of capital which takes but little account of economic incentive and grows and ever grows in speed and volume; and which consequently ensures a large share for labour.

CLARK ON DISTRIBUTION

BY

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1. Essential Postulates and Preconceptions of Clark's Theory.

Professor John Bates Clark is the most distinguished of American economists. He has made the most original and striking contribution to economic theory from the other side of the Atlantic. He ranks among the three or four great theoretical economists of the twentieth century. Professor Haney calls him "the greatest constructive general theorist that America has yet produced," while Professor Seligman says that his writings have "earned for him the reputation of being one of the five or six great Anglo-Saxon theorists of the nineteenth century, putting him on a level with Ricardo, Senior, Mill, Jevons and Marshall."

Clark's teaching is embodied in three important books. "The Philosophy of Wealth" (1885) which though not a systematic treatise upon economic theory reveals the basic ideas and the main trends of his thought. "The Distribution of Wealth" (1889) on which his reputation chiefly rests contains an exposition of static economics and incorporates the main body of his contributions to economic thought. "Essentials of Economic Theory" (1907) was intended to round off and complete the Political Economy of the nineteenth century by an examination of the laws of progress and the working of dynamic societies. The project however could not be carried to completion and in the meanwhile he offered in the "Essentials of Economic Theory" a brief and provisional statement of the progress of industrial

societies. Paul T. Homan summing up the writings of Clark says "Clark may well be supposed to have reached the high peak of the development of economic principles by the subtle elaboration of logical processes. The question now is whether economic truth is to be arrived at in that way."

The difficulty that faced Clark in his search for general laws was that the method of experiment which is available to the natural scientist was debarred to the economist. He was compelled, therefore, like his predecessors to use the method of deduction. The scientific validity of the system that Clark built up depends to a very great extent on the assumptions and postulates which form the basis of that system.

The starting point of Clark did not differ materially from that of the classical economists. The essential postulates of his system are similar to those of Ricardo and his immediate followers.[1] Private property is taken as the basis of social institutions. Individual freedom is assumed to be unrestricted and unhampered and active competition is assumed to have full sway in all gainful occupations. State interference in economic affairs is regarded as being confined to the essential functions of protecting property, enforcing contracts and maintaining competition. Labour and capital are deemed to be mobile and capable of transfer from place to place or from industry to industry in response to pecuniary stimulus. Economic activity is conceived to arise from motives to satisfy wants.

Though the premises of Clark's reasoning are similar to those of the classical economists he discards the traditional divisions of Political Economy into production, distribution, exchange and consumption. To him they are not distinct divisions. The production of wealth as it is carried on in organized society is a process which embraces both exchange and distribution. The

[1] *Vide* The Distribution of Wealth, pp. 3—9, 69, 150, 259; Essentials of Economic Theory, p. 39.

three may be said to be aspects of a large process which cannot be scientifically subdivided. Concretely under exchange the values of commodities are dealt with, and the laws which determine the value of commodities also determine the distribution of social income among producing groups, among sub-groups and finally among the factors of production within each sub-group. The whole of distribution as well as the whole of exchange may be included within the organized process of producing wealth. On the other hand consumption is a strictly individualistic process. Food is produced co-operatively but is consumed by each man for himself. Production is a collective operation: it is organized. Consumption is an individualistic operation: it consists in the use by each man of what society has produced for him. The one process is part of social economy and the other is not. But production and consumption are entirely co-ordinate: man acts on nature in the former and nature acts on man in the latter. Man modifies matter by production and matter modifies man through consumption. Briefly in production man creates wealth and incidental to the creation of wealth are the trading and sharing processes that are technically termed as exchange and distribution. In consumption man uses in an unorganized way the wealth that has been produced by organized society. Hence production and consumption exhaust the whole economy and constitute the whole economic process.

2. Distribution and the "Natural" Divisions of Economics.

Clark draws attention to three distinct kinds of force working together in economics. To study each of them separately is to resolve economic science into three divisions, the boundaries of which are not artificial but are drawn by nature. The three divisions are —firstly, the universal phenomenon of wealth the laws of which may be discovered by studying the principles which govern the life of an isolated man; secondly, social economic statics disclosing laws operative in a changeless society; thirdly, social economic dynamics in which the laws governing the processes of social

change are unfolded. In Clark's words, "Universal phenomena, static social phenomena and dynamic social phenomena are the subjects of the three divisions of economic science."[2]

The universal laws which form the first division of economic science act in the economy of the most advanced state as well as in that of the most primitive. They are found to exist in isolated economy and also in social economy. The producing and consuming of wealth are always subject to the same general conditions and possess the same distinguishing marks. Briefly these universal principles are the law of diminishing returns the distribution of effort between present wants and future wants, the law of diminishing utility and the principle of final or marginal utility which governs production. Of these the first is a physical law and the remaining are psychological, and all of them together form the basis and foundation of the completed logical structure of Economics.[3]

The second division of the science is concerned with the discovery and elucidation of static laws. Says T. N. Carver, "One of Clark's special contributions to economic theory is his classification of the concept of a static condition. Instead of being a mere useless abstraction this concept turns out to be one of the most productive ideas ever introduced into economic discussion."[4] In "The Distribution of Wealth" Clark confined himself solely to the study of static social phenomena. Clark was not the originator of the concept of economic statics. The term "natural," as used by classical economists in connection with standards of value, wages and interest was consciously or unconsciously employed as an equivalent of the term "static." In fact the Political Economy of the century following the publication of the "Wealth of Nations" dealt almost entirely with

2 *Vide* D. of W., p. 33.

3 *Vide* Homan, Contemporary Economic Thought, p. 50.

4 Economic Essays in Honour of J. B. Clark, p. 29.

static problems. It sought to obtain laws which fixed the "natural" prices of goods, the "natural" wages of labour and "natural" interest on capital. What was "natural" in Ricardian theory became "static" in Clark's theory so that the two terms may be taken as synonymous.[5] The classical economists did not work out the "natural" standards of values and the "normal" rates of wages, interest and profits with logical completeness. And as Clark observes "Far more than classical economists were aware of is involved in a thoroughgoing study of what they called natural values."[6]

Static standards of rates, as Clark conceived them, are identical with those which would be realised if a society were perfectly organized but were free from the disturbances caused by the march of progress. The static condition of economic society with which Clark primarily interests himself would ensue "if labour and capital were to remain fixed in quantity, if improvements in the method of production were to stop, if the consolidating of capital were to cease and if the wants of consumers were never to alter."[7] The aim is to show the rates to which the prices of foods, wages of labour and interest on capital would conform if the changes that are going on in the industrial world were to cease.

A static society, however, is never found. All real and natural societies are dynamic. Change and progress are apparent everywhere and economic society is constantly assuming new forms, discharging new functions. Because of the continual flux and change the rates of prices, wages, interest to-day are not what they will be ten years hence. Yet the conclusions of a static theory are not invalidated. However stormy may be the ocean there is an ideal level surface about which the actual surface

5 Essentials of Economic Theory, p. vi.

6 *Vide* D. of W., p. 29.

7 *Ibid.*, p. vi.

fluctuates. There are likewise static standards to which actual values, wages and interest tend to conform, however disturbed the markets may be. To use one of Clark's similes. Just as a pendulum is now on one side of an imaginary vertical line and now on the other so also the actual prices are now above the standards and now below them. The vertical line coincides with the position the pendulum would take if it were under the influence of static forces only. Similarly the standards conform to the prices which would be established if all changes in the market were held in suspense. A static condition is thus an equilibrium of forces.

Forces of progress and effects of change form the subject-matter of the third division of economics which Clark calls social and economic dynamics. To influences that would act if society were in a static or stationary state are added those which act if society were in its natural condition of movement and disturbance. The second set of influences will supply what a static theory definitely puts out of consideration, namely, all those changes that alter the mode of production and affect the structure of economic society. Clark discusses four general changes that are going on within the producing organization and he expects that the resultant of them would be a betterment in which all classes would share. These changes are: population is increasing, capital is accumulating, technical methods are improving, and the organization of productive establishments is perfecting itself while over against these changes in industry is an evolution in the wants of the individual consumer whom industry has to serve.[8] Economic dynamics is the most fruitful field but a knowledge of static law is needed as a preliminary to a knowledge of dynamic law. He says that as is the case in mechanics, the forces of rest must be known before those of movement can be understood.

Clark's treatment of the dynamic aspects of economic theory

[8] *Vide* Essentials of Economic Theory, Ch. 12.

is brief and tentative. His own work was mainly confined to static analysis. The promise to offer a volume on economic dynamics and the laws of industrial progress held out when " The Distribution of Wealth " was published in 1899 was never redeemed. His " Philosophy of Wealth " (1885), however, is a study which contains many elements of a true economic dynamics and marks out territory which was not traversed by his predecessors. In his " Essentials of Economic Theory " (1907) he made a belated attempt " to offer a brief and provisional statement of the more general laws of progress."

3. Specific Productivity Theory of Distribution.

The classical doctrine of diminishing returns on land was extended to labour and capital by Clark and therein lay his chief contribution to the marginal theory of distribution. Ricardo and Mill studied the effect of the application of a " dose " of labour and capital to a given piece of land and thus the only variation consisted of the quantity of labour and capital on the one side and quantity of land on the other. But the quantity of capital only was not varied in relation to a fixed quantity of land and labour, nor was the quantity of labour in relation to a fixed quantity of land and capital. But Clark conceived the idea of varying the quantity of each of the factors while holding the other two constant and fixed. Thus the yield of each factor, land, labour or capital was brought under the principle of diminishing returns and as a consequence the return or remuneration for each factor was related to the marginal productivity of that factor. All the units of a given factor are assumed to be uniform and interchangeable. Variation of the units of labour by one gives the marginal productivity of labour which in its turn fixes the wage rate. Similarly variation of the units of capital establishes the marginal productivity of capital to which the rate of interest corresponds.

Clark, however, measured productivity in terms of physical units. Yet many kinds of commodities are produced and for purposes of the exchange of these commodities they must be reduced to common units of value. The margin of production for labour as well as capital runs through all industries and the marginal output of a dose of capital or of labour can best be measured in terms of value. Thus the usefulness of a worker to an employer is measured not in terms of the benefit which he confers upon the concern but in terms of the money addition which he makes to the income of the concern.

Clark's treatment of the supply side of distribution was inadequate. Clark assumes given supplies of labour and capital and then measures the addition made to the total product by one extra unit of labour or capital. He takes for granted a certain quantity of each of the agents and then studies the effect on the total output of successive increments of each of those factors. Clark does not go into the question as to how the supply of the factors is obtained and how they happen to be combined in the proportions in which they are actually found The supply of labour and capital is taken as given and as already existing in the present forms and quantities. But in real life and also for purposes of economic analysis the determination of supply is also an essential factor in price fixing. The supply of a factor is not, as Clark seemed to assume, a passive affair in which any quantity will be offered irresponsive of price. The supply of the factors is a function of price and the supply varies as the price varies. The contribution of Clark to the theory of distribution is analogous to the contribution of the Austrian school to the theory of value—the demand schedule for labour and capital based on marginal productivity of the factors in the case of Clark, the demand schedule based on marginal utility in the case of the Austrian school. Clark argued as though the relative supply of each factor were a matter of caprice and unaffected by the price paid for it. He did not realise that supply would depend upon

and move in response to the return made for the marginal unit. If the change in the remuneration of labour or capital altered the supply also would alter and along with it the marginal productivity of the factors. To complete the theory of distribution we must carry the analysis beyond the stage of marginal productivity reached by Clark: we must construct supply schedules of the factors and study the effects of varying sets of supply schedules.[9]

Further the determination of the separate and specific productivity of the different co-operating factors offers a serious difficulty. In fact it is the crux of the problem. What is the meaning of the assertion that out of the distribution of a joint product the different productive agents receive the precise equivalent of the value which they have contributed? Can this precise productivity be arrived at otherwise than by sheer reference and appeal to what they get? Production goods and capital instruments are complementary and no separate and specific significance can be ascribed to any one item. The increase in the product may be due not so much to the new item as to the "togetherness" of all of the co-operating factors. Says Davenport, "In the competitive economy all possibility of ascription of a single productive significance to any productive item disappears: the entrepreneurs being different in equipment and in degrees and kinds of skill, each item has as many different productive potentialities as there are different productive complexes. There can, therefore, be no one degree of productivity assignable as the specific productivity of any particular item; and there is no warrant for supposing that the hire paid by the successfully bidding entrepreneur coincides with even his own appraisal of the prospective increased efficiency of his productive complex."[10] The fundamental error in the analysis is traceable to the assumption that the marginal utility analysis which is

9 *Vide* Economic Essays, Elasticity of Supply as a Determinant of Distribution by P. H. Douglas, pp. 70—118.

10 *Vide* Davenport, Value and Distribution, Ch. XXII, p. 476.

applicable to individual man can be carried over to society as a whole and also that the method of competition valid in the case of consumption goods can safely be applied to production goods.

J. A. Hobson, the author of "Economics of Distribution" also attacks the notion that it is possible to isolate and measure the separate productivity of anyone of the factors when applied as doses or increments. He denies that any entrepreneur, e.g., a farmer, deciding to employ a fifth labourer can properly regard the resulting increase of product as representing the specific productivity of the fifth man. For in the first place it may happen that by the addition of the fifth man the new product is less than five-fourths of the old product thereby showing that the employment of the fifth man who by assumption is as productive as the others and on that account is paid the same rate as the others has lowered the effectiveness of each of the other men. Secondly, the increase in product may be attributed not so much to the exertions of the fifth man as to the utilization of a fraction of the marginal ability of the employer which had hitherto run to waste. Thirdly, as it usually happens the doses applied are not doses of labour solely but doses which individually consist partly of labour, partly of capital and partly of land. The dose is thus a land-labour-capital composite and the increase in product is to be attributed to the composite dose and not to any particular part of it.

4. Shares in Distribution, Functional, not Personal.

While the attention of economists was centred on the marginal utility theory of value, Clark was making a scientific attempt to apply the concepts used therein to the problem of distribution. In fact Clark followed out and completed in the theory of distribution a body of doctrines which had already found acceptance in the theory of value. His efforts were directed to discovering those "natural laws" which apportion the income of society among the different claimants. The main thesis of his "Distribution of

Wealth " was to show that the division of the income of society is controlled by a natural law, and that this law, if it worked without friction would give to every agent of production the amount of wealth which that agent creates. His study amounts to an analysis of functional distribution, that is to say, the agents of production obtain an income in accordance with their performance of certain productive functions in the economic organization. It has no concern with personal distribution which is an examination of the claims of individuals as distinguished from inanimate agents upon the social income. He thus propounds his main thesis, " Where natural laws have their way, the share of income that attaches to any productive function is gauged by the actual product of it. In other words, free competition tends to give labor what labor creates, to capitalists what capital creates, and to entrepreneurs what the co-ordinating function creates. The entire study of distribution is, in this view, a study of specific production. It is an analysis of the wealth-creating operation, and a tracing to each of the three agencies that together bring wealth into existence of the part which it separately contributes to the joint result. To each agent a distinguishable share in production, and to each a corresponding reward—such is the natural law of distribution."[11]

According to Clark distribution has three stages: the division of social income among various groups of industries, secondly, among sub-groups in each industry and thirdly, among the factors of production within each sub-group. The first two processes are controlled by the market price of the articles produced while the last process is governed by productivity, labour and capital tending to get what each separately produces. The last process is the stage at which functional distribution takes place.

Wages in a static state are the specific product of labour. In order to distinguish the specific product certain technique has

11 *Vide* D. of W., p. 3.

to be adopted. For all appliances of production there is an extensive margin of utilization as well as an intensive one. These two margins constitute what Clark calls a zone of indifference, because an employer has no inducement in the shape of increased earnings to take new men into the zone or discharge some men that are already there. The product of labour on the zone may be measured and the measurement is the natural standard of wages for labour. All units of labour will be paid the same rates as the marginal units, that is, those employed on the zone of indifference. All units are interchangeable in the sense that if a labourer engaged in an essential task were removed the remaining workers would be shifted in such a way that the essential task would be done and the least essential would be left undone. Thus the effective importance of one unit of labour is no more and no less than that of any other. Consequently one unit of labour will not be paid more or less than another and all units will be paid according to the product of those engaged on the zone of indifference in performing the least important task. In a word final productivity governs wages.

Clark regards labour as a permanent force—a fund of human energy that never ceases to exist and to act. Men are perishable but labour is permanent. It is represented today by one set of men and tomorrow by another but labour as a fund—social labour—is permanent and self-replenishing and lives by perpetual transference from one set of concrete embodiments to another. In a static society the units of social labour which have the capacity to move to any point in response to pecuniary stimulus will have completely adjusted themselves and no further movement is called for. "There is mobility without motion." The result is that the pay of labour in each industry tends to conform to the marginal product of social labour employed in connection with a fixed amount of social capital as such.

Capital like labour is permanent as well as mobile. Capital and capital goods must be distinguished. Capital is a fund of

productive wealth while capital goods are the concrete appliances of industry: the former is permanent while the latter is perishable, the former is mobile, the latter is far from being so. The fund of capital originates through " abstinence " but is self-sustaining and self-perpetuating because it creates a product with which to replace instruments as they become worn out.

The income of capital is interest. The principle of diminishing returns and specific productivity as in the case of labour comes into full play and the action of the principle is tested by the device of adding or subtracting an increment of capital in an otherwise changeless situation. Subtract the total product of the combination re-inforced by the additional unit of capital from that of the combination without the additional unit and the result will show the actual product of the final or marginal unit. Under static assumptions the units of capital are interchangeable and every unit will therefore be equally productive over the whole field of industry. The interest therefore is measured by the specific product of that unit of capital which for the time being is applied at the margin. Perfect adjustment of capital and labour through the interplay of free competition and economic stimulus having been reached there is no further movement. Everything is in balance and equilibrium has been reached: there is mobility of capital but not movement of capital goods.

Clark drew a sharp distinction between capital and capital goods because propositions that are true of the one are not true of the other. The earnings of capital goods are rent while the product of capital is interest. Make an inventory of all the concrete instruments of production that the world contains and set down against each article the sum that in a year it can earn for its owner; add together all these sums and the gross amount is the total income received by the owners and is called rent. Again make the same inventory of capital goods as before and append to each article the value that it embodies; add together all these values and the grand total is the permanent capital of the world;

to get the amount of interest find what part of itself this fund will earn in a year and to get the rate of interest strike a ratio between the value of the capital and the value of the product which it has produced. In the words of Clark, "Rent is the aggregate of the lump sum earned by capital goods, while interest is the fraction of itself that is earned by the permanent fund of capital."[12] It appears then that rent and interest are identically the same incomes. In the one case income is expressed as an absolute amount or a lump sum, traceable to various concrete-capital goods; in the other it is expressed as a rate or a ratio of the value of the true capital which the concrete instruments embody. Where static adjustment is complete and where the competitive forces have made capital everywhere equally productive total interest equals total rent.

Clark widened the meaning of the term rent beyond that of the orthodox English economists and made it applicable to the sum earned by outward and material instruments of production of any and every kind. To him the rent law is universal.[13] He departed from the customary treatment of rent as a unique source of income. Land was simply one of the forms of capital goods and the differential formula of Ricardo which was hitherto applied to land alone was now applied by Clark to the earnings of the fund of permanent capital and of the whole force of social labour. If we take a fixed social capital and supply labour unit by unit the labour will be subject to the law of diminishing returns, each unit creating a surplus over the product of the last: the sum of these surpluses is the rent of the fund of fixed social capital and equals total interest. If we take a fixed amount of labour and supply capital unit by unit, the capital will be subject to the law of diminishing returns, each unit creating a surplus over the product of the last unit: the sum of these surpluses is the rent of social

12 *Vide* D. of W., p. 124.

13 *Vide* Haney, History of Economic Thought, p. 622.

labour and equals total wages. In a static state the two rents make up the whole of the social income. Says Clark, "It is one of the most striking of economic facts that the income of all labour on the one hand, and of all capital, on the other, should be thus entirely akin to ground rent. They are the two generic rents, if by that term we mean differential products; and the earnings of land constitute a fraction of one of them."[14]

In the effort to treat land as only a special form of capital Clark has to contend with several difficulties. Land unlike capital is not the result of abstinence. Land unlike capital cannot shift its form. The ownership and use of land have an ethical significance and a social import which mark it off from capital goods. Since Clark deals with a static state many of the difficulties which really apply to land under dynamic conditions lose their force. And since Clark deals with functional distribution the difficulties arising from ownership and use which really belong to personal distribution may be ignored. These difficulties apart land is part of capital: it is mobile in the sense that it can be put to the most productive use; it is subject to the law of diminishing returns in the sense that it can be so distributed between one crop and another, between village, pasture and building that a maximum total product is obtained.[15]

The generally accepted doctrine that rent does not enter into price is disputed by Clark.[16] He argues that the rent of any concrete instrument is primarily its product considered in kind. This product must enter into the supply of goods on the basis of which the price of goods is determined. What the classical economists, says Clark, have really shown is that the destination of rent makes no difference to price. If their reasoning could prove that the rent of land does not enter into price the same reasoning would

14 *Vide* D. of W., p. 191.

15 *Vide* Homan, Contemporary Economic Thought, p. 70.

16 *Vide* D. of W., Ch. XXIII.

also show that neither wages nor interest would enter into price. All real rents are quantities of actual goods placed on the market and in the market they affect supply and through supply the price.[17]

Finally, Clark drew attention to the large unifying principle to which his static laws of distribution conformed. "So all-embracing, indeed, is it that it dominates economic life. It may be called a law of variation of economic results; and if it were stated in its entirety it would give unexpected unity and completeness to the science of economics. It would explain at the same time values, wages and interest."[18] This universal principle is the law of diminishing returns. It operates in the field of production and consumption, exchange and distribution. That the laws of distribution cluster round a common centripetal principle is really the achievement of Clark.

Clark, however, adopts the narrowest view of distribution. He is content with an investigation of the rates of pay of the various factors of production: in what way the wages of a man's labor, the interest on his capital and the return for the entrepreneur function that he undertakes are fixed. But he takes the amounts of the various factors owned by a particular person for granted and makes no investigation concerning them. And the causes which determine the distribution of the various amounts of the factors among different persons are entirely neglected. Any theory constructed on these lines must of necessity be incomplete and one-sided.

Moreover his thesis that the distribution of the income of society is controlled by a natural law and that this law, if it worked without friction would give to every agent of production the amount of wealth which that agent creates is made to justify the existing structure of society. For if each factor obtains its own

17 *Ibid.*, p. 358.

18 *Ibid.*, pp. 208 and 209.

product, that which it can be said separately to produce, then the present division of income is " just " and men can have no quarrel with it. Arguments of this sort, says Dalton, aptly illustrate the lack of imagination which is likely to result from so narrow a conception of the problems of distribution. Even if Clark's thesis that each man receives what he produces were established there still remains the question why one man is able to produce so little and another so much. Naturally the existing social arrangements which are responsible for the inequalities of productive power are unjust and must be changed. The disparities and differences in income cannot be explained away by the theory of a specific productivity in spite of the skill and subtlety with which Clark develops it.[19]

5. Revision of the Concept of Capital.

Clark was in revolt against the spirit and trend of the old political economy. He was dissatisfied with the doctrines of the classical economists and was determined to reform and recast their views on the fundamentals of the science. Perhaps no doctrine that Clark enunciated has had such effect on subsequent economic thought as his reformulation of the capital concept. Fetter declares that the publication of Clark's monograph, " Capital and its Earnings " marks one of the important milestones in economic thought.[20]

Clark pointed out that economic science was labouring under two unlike conceptions of capital both of which were used indiscriminately. Clark sought to clarify the two concepts and distinguish them by separate names. He calls capital in the abstract sense " pure capital." It is in the nature of a fund or a single entity which is common to all the tangible forms of capital. To use his own words, " it is the *value* that a businessman invests in

19 *Vide* Dalton, Inequality of Income, pp. 115, 116, 117.

20 *Vide* Economic Essays, p. 137

the various instruments and appliances he uses." "Pure capital" must be distinguished from "concrete capital" which consists of tangible goods and materials. It covers not only the produced means of production but also all natural agents. Thus land in all its forms is a part of "concrete capital." Just as Clark widened the conception of "concrete capital" so as to include natural as well as artificial goods so also he widened the conception of the term rent beyond that of the classical economics so as to make it applicable to the earnings of the instruments of production of any and every kind, be it land or tools or machinery, i.e., the earnings of "concrete capital." According to Clark the phenomenon of rent is of universal application. The earnings of "pure capital" were called "interest" and these earnings were expressed as a percentage of the value of pure or abstract capital. In a word, all concrete goods yield rent and all pure capital yields interest.

These ideas departed greatly from the prevailing views on capital and disturbed the complacency of the classical economic theory. The accepted theory of distribution made a sharp division between land and capital, between a factor that was natural and one that was artificial, between one agent which earned rent (of land) and another which earned interest (on capital). Clark's doctrine ignored such a sharp division between land and capital, rent and interest. In accordance with his doctrine which appeared revolutionary at the time he reshaped the structure and form of the theory of distribution.

Clark's concept of capital has had a lasting effect upon economic thought. It has attained a very large measure of acceptance both in America and England. Taussig, Seager, Hadley, Fisher, Seligman, Bye, Boucke have all come under the influence of the valuation concept of capital and all in their own way with more or less clearness contrast capital as ownership and capital as means of production, capital as value, price or sums of money and capital as concrete goods although the traces of the older conceptions of "natural" land and "produced" capital are still found in the

pages of nearly all these writers.[21] Marshall showed acquaintance with J. B. Clarke's works. In his "Principles" Marshall offers to the reader a veritable maze of his notions on Capital. The reader must take his choice among various contradictions. His treatment of capital varies between the notion of capital as concrete goods and capital as a valuation concept. He makes several attempts to reaffirm and reassert the Ricardian theory and yet in all his discussions of price and of business problems makes use of capital as an individual concept expressed in terms of value.[22] The most recent thought on capital has run along the lines laid down by Clark. Summarising the recent tendencies Fetter says, "Capital is essentially an individual, acquisitive, financial, investment ownership concept. It is not coextensive with wealth as physical objects, but rather with legal rights as claims to uses and incomes. It is or should be a concept relating unequivocably to private property and to the existing price system. Social capital is but a mischievous name for national wealth. The so-called, misnamed, "interest problem" is not to be conceived of as correlated with a narrow class of artificial goods but rather as the time-value element permeating all cases of valuation of groups of uses differing in time."[23]

The valuation principle of Clark is, however, open to attack, for carried to its logical conclusion the principle leads to some absurd results. To bring out the futility to which the valuation principle is exposed when pushed to its last consequences Taussig who in the main follows the doctrine of Clark quotes several instances such as a public debt, an unused patent right, an annuity nay a human being in so far as he is an instrument of production

21 *Vide* Taussig, Principles of Economics, Vol. 2, p. 115; Seager, Introduction to Economics, p. 108; Hadley, Economics, p. 5; Fisher, Nature of Capital and Income, p. 3; Seligman, Principles of Economics, pp. 17 and 204; Bye, Principles of Economics, p. 24; Boucke, Principles of Economics, pp. 95 and 370.

22 *Vide* Marshall, Principles, pp. 133, 137, 284, 492, 513, 615, 648, 790.

23 *Vide* Economic Essays, p, 156.

which are entitled to be called capital. They can be measured in terms of value and the return from them all even including return from labour may be considered as "interest."[24]

6. Profits, the Result of Dynamic Change.

Profit, according to Clark's analysis, is not determined by the general principle of distribution, viz., marginal productivity. That principle assigns the entire product of socialized industry, under static conditions to labour and capital and thus leaves the entrepreneur shareless and without remuneration.[25] Businessmen, so to say, are endowed with an uncanny knowledge of every source of profit, that is to say, every market in which goods may be sold at more than their cost. Rivalry in exploiting such markets will force down prices until the source of profit is dried up. Under static conditions there will be no incentive for business people to migrate from one field of endeavour to another because the advantages of producing the commodity in question through the operation of free competition have been equalized. Where there is complete static adjustment profits disappear and buyers procure their goods at cost. The prices that prevail come to be presented as cost prices. To quote from Clark, "Cost prices are, of course, no-profit prices. They afford, in the case of each article, enough to pay wages for the labor and interest on the capital that are used in making it; but they give no net surplus to the entrepreneur, as such."[26]

Distribution, as Clark conceives it, is primarily functional rather than personal. And a separation of economic functions is regarded as essential in the analysis of distribution. Clark

24 *Vide* Taussig, Principles, p. 119.

For an extreme application of Clark's doctrine see Fisher, Elements of Economic Science, Ch. XXIV, para 1.

25 *Vide* D. of W., pp. 77, 78, 79.

26 *Vide* D. of W., pp. 78, 79.

recognises three distributive economic functions: that of the labourer, the capitalist and the entrepreneur. The entrepreneur whose function it is to organise production and co-ordinate the agents receives some compensation. His reward is merely a species of wages, or payment for organizing ability and contains nothing in the nature of a surplus. In a word the entrepreneur gets what the co-ordinating function creates for the simple reason that where natural laws have their way the share of income that attaches to any productive function is measured by the actual product of it.

Clark, however, does not deny the existence of profits. According to his analysis profit owes its origin to dynamic changes in the producing organization. It constitutes a residuum which goes to the entrepreneur only because the law of distribution operating under dynamic conditions does not apportion it to labour and capital. Pure profit appears as the result of a disturbing influence and then slowly vanishes as competition resumes its full sway. As static standards tend to re-establish themselves profits become a vanishing sum. The competition of those who succeed the pioneer forces him to part with his profits to the rest of the community; and this he does either directly in higher wages and interest or indirectly through lower prices to the consumers, a process by which profits continually tend to be distributed over the community. As Clark himself expresses it, "Profit is the universal lure that makes competition work; and the ultimate goal is no-profits rate."[27]

Clark's contention that there are no profits in a condition of statical equilibrium is assailed by C. A. Tuttle who develops a functional theory of profit on the lines of Clark's functional theory of distribution.[28] What is the prize, Tuttle asks, which lures men in static industry to assume the function of business ownership?

[28] *Vide* Economic Essays, A Functional Theory of Profits by C. A. Tuttle, pp. 321—326.

[27] *Vide* Clark, D. of W., pp. 111, 179, 209—292, 400—410.

Through the mechanism of competition the marginal opportunity for say, equal units of labour becomes adjusted. On the margin the labour's product is specifically due to the exertions of labour. The product in question determines the rate of wages. But the surplus product resulting from units of labour placed in supra-marginal opportunities within the business is not entirely labour's contribution. Labour is entitled to the marginal product multiplied by the number of units employed. The remainder or the differential is clearly to be attributed to the exceptional quality of the opportunity in which labour is placed. Since all the labour opportunities within the business belong to the entrepreneur the differential clearly belongs to him and constitutes his functional share. It is economic profit. The same reasoning applies to capital which also by a similar process generates economic profit. Thus in static industry economic profit exists as the distinctive functional income of the entrepreneur. The law of marginal productivity which serves to determine economic wages and economic interest will at the same time serve to identify economic profit as the functional income of the entrepreneur.

Clark's theory that profit is a result of change in economic conditions is also narrowly conceived. The "dynamic changes" that Clark speaks of may be of two kinds, viz., those which can be foreseen and foreknown a sufficient time before they take place and those that are wholly unexpected and unpredictable. The latter are by far the least important part of the dynamic changes that occur in economic life although the risk and uncertainty that characterise them may ultimately yield profits to the entrepreneur. But most of the changes are of the kind which may be foreseen and foreknown or which take place continuously in accordance with laws generally and accurately known so that their course may be predicted as far into the future as the occasion demands. It is evident that with general foreknowledge of progressive changes in economic life no chance to make profits will arise out of them. In fact it is the first principle of scientific

speculation and the very basis for the capitalization of anticipated increase in values. The change being foreseen its effect will be "discounted" in advance—a situation which admits of no risk and no uncertainty and offers no chance for the emergence of profits. A society may be dynamic, changing and progressive and yet the prices may be "natural" in the sense that they correspond to costs and leave no room for profits.

Changes then are not always, certainly not in the majority of cases, the cause of profit. For whenever the law of the change is known profits cannot arise. But change may cause a situation out of which profits will be made and this is a change which cannot be foreseen and predicted. The fact that change is a necessary condition of our being ignorant and uncertain of the future has given rise to the error that change in itself is the cause of profit. Change may take place without profit but no profit can arise in the absence of those changes the cause and course of which lie beyond the ken of the entrepreneur. The subject of risk receives scant attention in Clark's theory. Except for casual references he seems to be unaware of the importance of uncertainty-bearing and risk-taking and the special remuneration that attaches to it. In the words of F. H. Knight, "It is not dynamic change, nor any change, as such, which causes profit, but the divergence of actual conditions from those which have been expected and on the basis of which business arrangements have been made. For a satisfactory explanation of profit we seem to be thrown back from the "dynamic" theory to the "Uncertainty of the Future," a condition of affairs loosely designated by the term "risk" in ordinary language and in business parlance."[29]

29 *Vide* F. H. Knight, Risk, Uncertainty and Profit, p. 38.

REGULATION OF BANKS IN INDIA

BY

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The Need for Regulation.

The chief reasons for subjecting Banking to Government regulation are not far to seek. In the first place, Banking gives such a tremendous power that is inherent in the control of funds available for loaning purposes that it has been regarded as a business of semi-public nature. And some have even gone to the length of proposing that all banking business should be conducted by the State. While it is true that private banking has not been abolished, the numerous disastrous failures of such institutions have sometimes led to proposals being put forth for its elimination. Secondly, the whole structure of banking rests on the foundation of the confidence of depositors and once that is shaken the entire structure is liable to fall to the ground. Bankers largely deal in other peoples' money and a large proportion of the floating wealth of a nation is in the hands of its bankers, and it is, therefore, considered essential so to regulate the business as to provide least opportunities for the weakening of the public confidence in these institutions. Thirdly, Government supervision of banking is considered necessary owing to its relation to the entire economic structure of a country. Not only the safety of individual banks is linked with the safety and prosperity of the system as a whole—and consequently in certain countries they have in the absence of Government control evolved a machinery for controlling themselves

as one system[1]—but also the industrial and the commercial progress of a country is largely dependent upon them.

Laissez faire Policy in Banking.

A student of the history of Indian Finance during the last hundred years or so cannot but notice the effects of the political connection between India and England on the financial organisation of this country. The *laissez faire* policy of the State in the matter of her economic organization in England is almost without change reproduced here and even to-day India cannot be said to be a protectionist country as her tariff is very largely based upon revenue consideration. The same policy has so far guided the State in regard to her banking organisation. It has been so in spite of the fact that just before the Great War India passed through a very severe banking crisis. Among other things, for want of prudent management no less than 54 banks failed between November 1913 and December 1914 and as many as 154 banks had to close their doors between 1915 and 1927, the latter year accounting for sixteen. These several failures put back considerably the development of Indian Banking. There were, of course, bank failures in other countries too, but they served them as eye-openers which does not appear to have been the case in India, if one is to judge by the fact that no serious step has yet been taken for preventing the repetition of the occurrences which upset the credit organisation of this country nearly two decades ago. It is, however, hoped that the Banking Enquiry Committee appointed last year has devoted special attention to this problem. This apathy in India on the part of the State may be explained by the fact that in England there is no State control over the banking system. But the analogy of the English banking system should not hold good with India. The English banking system is the result of an experience of more than a century with the consequence that

1 *Cf.* The Canadian Bankers' Association. This body, incorporated in 1900, however, acts under the authority of the Dominion Treasury Board.

it is so well founded and its business is so well conducted that any special banking legislation is rendered not quite essential for it. The same thing cannot be said of the joint stock banks in India. In her special circumstances, such as the illiteracy of the great bulk of her people, the slow growth of the banking habit, the lack of trained skill, the paucity of banking offices and the absence of a central banking institution, special legislation regulating her banking organisation seems very necessary. It is true that there is no legislative road to banking paradise and regulation alone cannot bring about a well-organised system of banking but there can be no doubt that, by prescribing and enforcing a certain standard of management and by placing a check on the dishonesty of managers and directors,[2] instances of which were brought to light during the bank failures of 1913—15, legislation will inspire public confidence and accelerate the development of banking on sound lines in the near future.

Existing Banking Legislation.

Joint stock banks in India are at present governed by the Indian Companies Act, 1913, which distinguishes between banks and other companies only in a few matters. Section 4 of the said Act requires that, when more than ten partners wish to do banking business, they must form a company and get it registered under the Act. Section 136 lays down that every limited banking company or an insurance company or a deposit, provident or a benefit society should before it commences business and also on the first Monday in February and August in every year must publish a statement in a prescribed form and a copy of this statement should be continuously displayed at the registered office and every branch office of the company until the next following statement is published. In the form of balance sheet prescribed for banking companies, debts for which the bank holds merely personal securities are required to be shown separately from those that are fully se-

2 " Shady Banker Scandal,"—The Statesman, October 29, 1929.

cured and the sub-head "Provision for Bad and Doubtful Debts" in the column headed "Capital and Liabilities" is deleted. In the column headed "Property and Assets" in the sub-head Book Debts, only Book Debts other than bad and doubtful debts of a bank for which provision has been made to the satisfaction of the auditors are required to be shown.[3] In the matter of investigation into the affairs of joint stock banks by Local Government, it is necessary that the application must be signed by shareholders representing at least one-fifth of the subscribed capital though in case of other companies an application from shareholders representing one-tenth of the total subscribed capital will do. The brief explanation of the legal position of joint stock banks in India given above will clearly show that legislation has so far paid very little attention to them.

History of the Attempts in Favour of Banking Legislation in India.

The Indian Industrial Conference held at Karachi in December 1913 passed a resolution proposed by Sir D. E. Wacha, the Grand Old financial expert of India, favouring the introduction of banking legislation in this country. The main recommendations of the conference in this connection were as follow:—

(*a*) The use of the term banking should be restricted to banks registered under the Indian Companies Act.

(*b*) All banks doing business in India except those created by special statutes should be registered under the Indian Companies Act.

(*c*) At least one-third of the minimum subscribed capital must be paid up within six months of the registration.

(*d*) The Registrar of Joint Stock Companies should be authorised to refuse to register as banks companies

[3] Government of India (Commerce Department) Notification, dated the 29th March, 1927.

whose articles of association permit them to engage in business other than banking.

(e) No bank should be permitted to make advances against its own shares unless they were fully paid up.

After the bank failures of 1913—15 the unwisdom of the policy of *laissez faire* in banking matters in this country was realised and the Government of India invited the opinion of Local Governments and certain commercial bodies, majority of whom is reported to have favoured the proposal to impose certain restrictions to ensure safe and prudent banking.

In 1920, at the instance of the Bengal Chamber of Commerce, a committee considered the question of banking legislation and proposed a certain minimum paid-up capital and the strengthening of the bank audit. The Chamber, however, suggested the postponement of the consideration of the question on the ground that a similar investigation was being made in the United Kingdom and consequently no action was taken. The matter was brought up in the Indian Legislature and the Government gave the assurance that legislation would be undertaken if they felt the need for it.

Main Objects.

In making the following suggestions it is the intention of the writer that the object of the legislation should be to ensure the maximum of efficiency with as few restrictions as possible, so that it may help to improve the position of banking in India and not to retard its progress. The suggestions made are meant mainly for the Indian Joint Stock Commercial Banks and the Imperial Bank of India may continue to be governed by its special Act. Banking legislation may well aim at the following objects:—

1. Proper organisation.
2. Efficient management.
3. Reasonable supervision.

4. Protection of banks against dishonest misrepresentation of the officers of a bank.

5. Regulation of Foreign banks doing business in India.

1. PROPER ORGANISATION

Restriction of the Use of the Terms "Bank" and "Bankers."

The business of banking is delicate. It rests on the confidence that people repose in it. It is, therefore, desirable that it should be marked off from any other kind of business. Banking is incompatible with any other kind of business. It needs great caution while adventure is the essence of other kinds of business, e.g., commerce. The Bank of Hindostan failed because it was a mere appendage to the commercial firm of Messrs. Alexander & Co.[4] Actual or possible losses in trade or rumours to such effect are bound to react unfavourably on the banking business of a concern. With a view to make this distinction effective, it is proposed that the terms "bank," "banker" and "banking business" shall not be applied to concerns other than those registered under the proposed Indian Banking Act. Notwithstanding the fact that these terms have been used in the Negotiable Instruments Act 1881 and the Bankers' Books Evidence Act 1891, none of them has been properly defined. For instance Section 3 of the Negotiable Instruments Act of 1881 is content with laying down that "bankers includes also persons or a corporation or company acting as bankers." Even the English statutes do not throw any light as to what exactly constitutes the banking business. However, the view of Sir John Paget explained below appears to find general acceptance in England. According to him "no one and no body corporate or otherwise can be a banker who does not

(1) take deposit accounts,

(2) take current accounts,

[4] Early European Banking in India, by H. Sinha (1927), see pages 5 and 236.

(3) issue and pay cheques,

(4) collect cheques crossed and uncrossed for his customers."

From the above it will appear that receipt of deposits—both fixed and current—is an essential part of the business of banks. In view of the fact that in India some co-operative banks and private bankers do not receive deposits withdrawable on demand, it is for consideration whether the opening of current accounts must be laid down as a condition precedent for institutions or persons doing business as banks or bankers. In this connection, it is interesting to note that the Hilton Young Commission interpreted the terms as meaning "every person, firm or company using in its description or title 'bank' or 'banker' or 'banking' and every company accepting deposits of money subject to withdrawal by cheque, draft or order." No one is allowed in Japan to use the word "bank" unless it is a joint stock company registered under the Bank Act.

The Indigenous Banker.

Inasmuch as the indigenous banker will continue to flourish for some time at least, in spite of the expected development of joint stock banks, it is for consideration whether the proposed Act may not be extended to embrace him also. Although I am personally inclined to favour the regulation of his business also by the State I think it desirable to leave him out for the present. However, the Central Banking Institution may well offer him certain facilities provided he meets its wishes in matters such as the preparation of his accounts in a suitable form, their audit by a qualified auditor, undertaking not to combine any other business with banking, etc., etc. Moreover, as already stated, this paper deals mainly with Joint Stock Banks and we will consequently restrict our remarks to them.

Minimum Capital.

Our banking organisation requires re-orientation. For this purpose it has to be based on solid foundation which is partly

achieved by the fixation of a certain minimum capital. Such prescription will eliminate the mush-room growth of banks with small and insufficient capital which engenders competition and consequent exposure to failure of local banks. The statistical abstract relating to banks in India for 1927 gives a few glaring instances of the abuse of the term ' bank ' owing to the absence of any legal requirement regarding the minimum paid-up capital. Six out of the sixteen banks that failed or went into liquidation in 1927 had practically no paid-up capital. The paid-up capital of one was Rs. 800, and that of another Rs. 1,400. Two more had less than Rs. 5,000 each. It is, therefore, necessary in the interests of the depositors that the banks should have some minimum financial resources of their own.

It is proposed that in India a minimum subscribed capital of Rs. 30,000 may be prescribed for banks in towns whose population does not exceed 5,000; where the population exceeds 5,000 but is less than 10,000, the capital shall not be less than Rs. 60,000. In places where the population is above 10,000 but is not more than 20,000, the capital must be at least Rs. 1,00,000. In places with a population of more than 20,000 but less than 50,000 the capital shall not be less than Rs. 2,50,000. In cities with more than 50,000 inhabitants but less than 1,00,000 the capital shall be at least Rs. 5,00,000. Where population exceeds 1,00,000 the capital shall be such as may be prescribed by the Director General of Banks, but in no case shall it be less than Rs. 10,00,000. In prescribing the amount, the Director General of Banks shall pay due regard to the commercial, industrial and agricultural conditions of the locality to be served by the proposed bank. Banks desiring to open branches within the province in which they have their Head Office, should have a subscribed capital of at least Rs. 5,00,000 and those desiring to extend their business to other provinces, should have a minimum subscribed capital of Rs. 10,00,000. As banks started for overseas business require larger capital, the minimum in their case shall be Rs. 30,00,000. It shall be provided that the

capital shall be divided into shares of not less than Rs. 10 each, at least half of which shall be made payable within one year of the registration of the bank. A bank shall not commence business unless it has at least a quarter of the minimum subscribed capital required under the Act paid up. But in case of banks with a subscribed capital of less than Rs. 1 lakh they should not be allowed to commence business unless half of their capital is paid up. The directors of bank must inform the Inspector General of Banks of the province in which the bank has its head office about the payment of at least 50 per cent of the minimum subscribed capital within fifteen months after its registration, otherwise he shall have the right to order suspension of business.

Example of Other Countries.

Thus a minimum capital on population basis is recommended as population determines largely the extent to which a bank proposes to render service. Similarly a bank with many branches must have a much larger capital than a mere local institution. The National Bank Act of the United States of America[5] and the New Bank Act of Japan (1927[6]) prescribe a minimum capital on the basis of population. Canada[7] and Denmark also fix a minimum.

The United States of America.

The following table shows the minimum capital required for banks under the National Bank Act of the United States of America (1861 and as amended up to 1923).

5 Money and Banking by J. T. Holdsworth, 5th edition (1928), see pages 228—230.

6 Banking Reform in Japan by Juichi Tsushima, the Financial Commissioner of the Imperial Japanese Government in London, Paris, and New York. The Bankers', Insurance Managers' and Agents' Magazine, March 1928, page 383. The Japan Year Book, 1928, page 437.

7 The Canada Year Book, 1929, pages 846—848.

Towns with a population of/or below		Minimum capital.
,,	3,000	$ 25,000
,,	6,000	$ 50,000
,,	50,000	$ 100,000
,,	Over 50,000	$ 200,000

In the United States, a bank registered under the National Bank Act, cannot commence business unless half the amount of its capital is paid up, the other half is required to be paid up in instalments of not less than 10 per cent a month, though all may be paid in a shorter time. Banks in that country cannot be started at the will of the promoters. They have to obtain the permission of the Controller of Banks who will, before giving permission, investigate the need for it in the locality applied for.

Japan.

The law provides that a bank cannot be started in Japan with a capital of less than a million yen but an exception is however made in the case of small towns with a population of less than 10,000 inhabitants, where banks with a capital of more than 500,000 yen can be started. In the case of banks to be started in large cities, the capital shall be such as the Finance Member will designate, but in no case shall it be less than two million yen.

Canada.

The minimum capital required in Canada is $ 500,000 half of which shall have been paid up before a bank can commence business.

Other Conditions.

It is considered desirable that in case of all banks to be started with a capital of Rs. 2½ lakhs or more, there must be at least five and in case of others at least three promoters who shall sign the articles of association which shall, among other things, state

the object of the bank to be started. These articles of association shall be filed with the Inspector General of Banks of the province in which the bank is to be started and will be forwarded by him with his remarks to the Director General. The promoters shall satisfy the Inspector General that they are respectable people and that they are men of means. A certificate to that effect from a local designatory such as the District Magistrate or Collector of the District in which the registered office is to be located, may, if necessary, be required in support of the respectability of the promoters.

Information to be Required in Applications for Permission to Start.

In their application for permission to start a bank they shall, among other things be required to state—

(*a*) the name of the Bank which they propose to start; (The name of the Bank shall be subject to the Inspector General's approval as this will avoid duplication of names.)

(*b*) the place of business, village, town or city, union or municipality, taluka, district and province;

(*c*) the capital of the proposed bank and the number of shares into which it is divided and the value of each share;

(*d*) the name and residence of each of the promoters, and the numbers of shares held by each;

The Director General[8] before giving permission to start the proposed bank shall satisfy himself as to the need for it in the locality applied for. He may investigate its necessity with the help of a Committee consisting of persons representing the indus-

[8] These powers of the Director General of Banks may be delegated to the Inspector General of different areas in case of banks to be started with a capital not exceeding 2½ lakhs and whose business is to be carried within the area under the supervision of one Inspector General of Banks.

trial, agricultural and commercial interests, besides a financier-banker with no stake in the said locality. The Director General shall after such investigation have the right to refuse to grant permission. If permission is granted it shall be incumbent on the promoters to supply the Director General, as soon as the subscription list is closed, with the names and residences of the shareholders and the number of shares held by each. In case the promoters are not satisfied with the decision of the Director General they may be given the right of appealing against his order to the Finance Member of the Government of India.

It shall be illegal for a bank to start or do business without the Director General's certificate of authority. It should be obligatory on the bank to publish such authorisation certificate in a local newspaper for at least a month after such authorisation.

The Director General's authorisation certificate shall empower a bank—

(*a*) to engage in the business of banking;
(*b*) to adopt and use a seal;
(*c*) to make or enter into contracts which are necessary or contingent to banking business;
(*d*) to sue and be sued or defend actions at law;
(*e*) to elect or appoint directors and by the board of directors to elect or appoint officers, define their duties, draw up bye-laws and complete its organisation.

The bye-laws of a bank shall not contradict or otherwise run contrariwise to any of the provisions of the Indian Banking Act.

Liability of a Shareholder.

The liability of a shareholder shall be limited to the extent of the par value of the shares that he has purchased. His liability shall cease by selling away or transferring his shares in the bank to some other person provided that such sale or transfer has not taken place within twelve months prior to the winding up or liquidation of the bank.

2. BANK MANAGEMENT

Principles of Bank Management.

There can be no two opinions about the fact that no amount of legislation by itself can ensure a high standard of efficiency in bank management because it is humanly impossible to lay down rules and regulations to provide for all manner of problems which confront those responsible for the management of banks. However, there are certain fundamental principles governing bank management for the observance of which suitable provision can be made by legislation. It is in the interest of shareholders and depositors of banks as well as the general public that banks should have reasonable liquid assets, should set aside a fair portion of their profits for the building of reserve funds and be restricted in advancing more than a certain portion of their capital plus reserve fund to individuals, firms or companies against their personal security.

Reserves.

As the business of banking is dependent more on the ability of the bank to meet the demands of its customers than on its possessing sufficient assets to pay off its creditors, it is very desirable that banks,—particularly in a country like India—should maintain a minimum reserve. The neglect to observe this most important principle of sound banking was very largely responsible for the bank failures of 1913-14. But some of our banks do not seem to have learnt the lesson yet; while it is true that the reserve requirements of a bank are dependent on several factors such as the development of the banking habit, the use of cheque currency, the economic conditions of the locality in which a bank operates, the absence or presence of bankers' clearing house and the class of customers that a bank deals with, it is scandalous to run a bank with ridiculously small reserve as is the case with some

banks.[9] Therefore, the desirability of laying down certain minimum reserve requirements against different classes of deposits in this country can hardly be doubted. The Hilton Young Commission recommended the establishment and maintenance of minimum reserve balances with the proposed Reserve Bank of India equal to 10 per cent of demand liabilities and 3 per cent of time liabilities, in addition to the till money. In this connection I may invite the attention of the members of the Conference to the following proposals of Mr. B. T. Thakur.[10] Local banks serving places with a population of 1,00,000 or less should be required to have a minimum reserve of 15 per cent against deposits payable on demand or within 15 days; but in the case of other banks the reserve requirement should be 20 per cent. A reserve of at least 5 per cent should be required to be maintained against other deposits. However, only the credit balances at other banks payable on demand, after the deduction of balances due to other banks together with the amount of cash and bullion held by a bank should be regarded as a reserve required for the purpose. It should be made unlawful for a bank with less than this minimum to increase its liabilities by making new loans or by discounts except in the matter of discounting or purchasing bills of exchange payable at sight. It should not declare a dividend unless this deficiency is made up. If the deficiency is not made good within sixty days from default, it shall be open to the Inspector General of Banks with the concurrence of the Director General of Banks to order winding up of the business. The Inspector General may, however, be empowered to suspend the operation of this provision of the Indian Banking Act in respect of a defaulting bank provided he shall levy a progressive tax on the fall below the specified level. The period of such suspension shall not exceed a calendar month or in the alternative a period of 30 days. The

9 Statistical Tables relating to Banks in India, 1927.

10 Organisation of Indian Banking by B. T. Thakur, pp. 226-27.

Inspector General may whenever he thinks expedient renew such suspension but for a period not exceeding 15 days from time to time subject to the condition that the total period of such suspension shall not exceed 90 days.

Example of Other Countries Quoted.

There are similar provisions in other countries. Denmark requires a ten per cent cover in cash and readily marketable paper against demand liabilities. In the United States of America the member banks are required to have the following minimum reserves:—

	Kinds of Banks		Deposits [11] Demand	Deposits Time
1.	Central Reserve City Banks	...	13%	3%
2.	Reserve City Banks	...	10%	3%
3.	Country Banks	...	7%	3%

Building-up of Adequate Reserve Fund.

With a view to enable banks to meet losses without any impairment of their capital, the laws of several important countries require banks to set aside before declaration of dividend (interim or annual) a certain minimum portion of their net profits for the building of a Reserve Fund.[12]

The United States of America.

Under the "National Bank Act of America" every Bank is required to take 10 per cent of its net profits to reserve until the same reaches 20 per cent of capital. Further discretion is vested in the Comptroller to decide whether dividends shall be paid at all, if in his opinion the reserve already built is not substantial.

[11] Demand deposits are defined under the laws of U.S.A. as those payable within thirty days. "Banking Law and Practice" by M. L. Tannan, p. 197.

[12] Money and Banking by J. T. Holdsworth, 1928, p. 258.

Japan, Canada and Italy.

No dividend can be declared in Japan under the new Act (1927)[13] until one-tenth of the profits is appropriated to the Reserve Fund. In Canada,[14] dividends are limited by law "until a reasonably large Reserve Fund has been created." Under the recent revision of the Dominion Bank Act (1923) liability is fixed on the directors for distribution of profits in excess of legal limits. In Italy banks are required to set aside not less than one-tenth of their profits every year to reserve funds until they have reached the total of 40 per cent of their capital.

Suggestion for India.

It is, therefore, suggested that before declaring dividends the banks in India be required to set aside towards reserve fund at least 10 per cent of their net profits until the reserve fund reaches 25 per cent of their paid-up capital. They should not have the right to declare a dividend of more than 6 per cent except with the consent of the Director General of Banks as long as the reserve fund does not amount to at least a quarter of their paid-up capital. The minimum percentage of the net profits to be set aside for strengthening the reserve fund be reduced to 7½ per cent, when the reserve fund of a bank is above 25 per cent but below 50 per cent of its paid-up capital and to 5 per cent when the reserve fund amounts to one-half or more of the paid-up capital.

Loans, Advances and Investments.

The most important function which banks render to the business community and whereby make large profits for their shareholders is that of making loans and investing their funds in other ways such as by discounting of bills. It is in the performance of these functions that the management has to take special

13 Banking Reform in Japan, The Bankers', Insurance Managers' and Agents' Magazine, March 1928, p. 383.

14 The Canada Year Book, 1929, p. 847.

care. Not only is it desirable to see that a bank's funds are so invested as to inspire the confidence of its depositors but it is absolutely essential that it should follow the well-known maxim of not putting all its eggs in one basket. Banks must always act on lines of safety first. They should not make their existence dependent upon any individual, firm or corporation as their own existence may be jeopardised by the failure of the particular customer. Banks have brought about their failures by ignoring this fundamental principle. Lending about a third of the working capital to a single concern brought about the failure of the Bank of Burma in 1911.[15] One of the several causes to which the failure of the old People's Bank of India is attributed was that it locked up most of its funds in concerns with which one of its managing directors was associated. In countries where banking has been well established the need for legislation in this direction is not so essential as in the case of such countries as India where banking is yet in infancy. It is, therefore, very desirable that the State should guard against the risks of mismanagement of banks in this matter.

Restriction of Loans to be Advanced to a Single Person or Firm.

It is illegal in Japan to advance to a single person or firm an amount exceeding one-tenth of the total paid-up capital and Reserve Fund or to hold in mortgage more than one-fifth of a company's total issue of shares.[16] In the U.S.A. the McFadden Act of 1927 secures similar provisions.[17] It lays down a general limit on the powers of a national bank to lend to an individual, partnership, association or corporation not more than 10 per cent of the

[15] Early European Banking in India by H. Sinha, 1927. See footnote 2, page 217.

[16] 'Banking Reform in Japan,' The Bankers', Insurance Managers' and Agents' Magazine, March 1928.

[17] Money and Banking by J. T. Holdsworth, 1928, p. 224.

capital and surplus of the bank.[18] The bye-laws of the Presidency Banks similarly laid the limit loanable to any individual concern or business. Article 42 of the Charter of the Bank of Bengal laid down a limit even to the holding of first class Government Securities. It forbade the holding at any one time of Government paper exceeding the sum of Sicca Rs. 25,00,000.[19]

Suggestions for Banks in India.

The need for distribution of risk necessitates a restriction on the powers of our banks to loan to a person or firm, company or corporation a sum exceeding 10 per cent of their capital paid-up plus surplus. But bills maturing within six months and with two unconnected signatures may be discounted to the extent of 15 per cent of paid-up capital plus surplus in addition to the 10 per cent general limitation, provided such bills are genuine commercial bills, i.e., bills drawn in respect of actually existing values. Subject to such total 25 per cent limit, banks may make loans against the security of shipping documents, ware-house receipts or other documents conveying or securing title to readily marketable non-perishable staples provided that such property is fully covered by insurance. At least ten per cent margin shall be held on all loans against Government Securities. Borrowers on the security of other Trustee securities shall maintain a margin of at least 15 per cent. A bank shall be prohibited from making a loan of more than 10 per cent of its paid-up capital plus surplus against the security of the shares of a single company or any stock exchange security which is not otherwise provided for. Such loans shall not be made for a period exceeding five years nor for a sum exceeding 50 per cent of the market value of the property offered for security, provided the security is unencumbered, and is within a hundred miles, radius from the office of the bank. A

18 Reserve fund together with the credit balance of the Profit and Loss account brought forward.

19 Early European Banking in India by H. Sinha, p. 160.

bank may, however, hold real estate necessary for the transaction of its business including the housing of its staff. A bank may also hold real estate such as is mortgaged to it as security for or conveyed to it in satisfaction of antecedent debts contracted in good faith. A bank may purchase real estate in satisfaction of a judgment decree obtained by it but it shall be unlawful for a bank to hold real estate obtained in any manner except for the purpose of carrying on its legitimate business for a period exceeding five years. The Director General of Banks shall have power to further restrict any bank to make loans on real estate.

Loans Against Real Estate.

Commercial banks do not ordinarily make loans against real estate or otherwise make long-term advances because liquidity—the life-breath of a bank—is not in their nature. In Canada banks are required to make an annual report to the Minister of Finance about the real and immoveable property owned by them.[20] Banks in the United States can hold immoveable property either by title or under mortgage but only for debts due and previously contracted and subject to the condition that such possession shall not exceed five years.[21] The Imperial Bank of India cannot lend against any immoveable property except in the case of estates under the Courts of Wards.

Although banks shall not ordinarily make loans against real estate power may be given to them to make loans for which the chief security is real estate. Such loans shall at no time exceed 50 per cent of the paid-up capital of a bank.

Unwise to Lend Against the Security of Bank's own Shares.

It is unwise for a bank to lend against its own capital stock. Should it be necessary to realise the securities it holds or against

20 S. 79 of the Dominion Bank Act as revised in 1923 (13-14 Geo. V, c. 32), The Canada Year Book, 1929, p. 848.

21 National Bank Act. June 3, 1864. Principles of Money and Banking by H. G. Moulton, p. 211.

which it has lent, it will find some difficulty in selling its own stock. Loaning against its own capital stock was responsible for the failure of the first Benares Bank established by Colonel Pew in 1844-45.[22] The Imperial Bank of India is precluded from making a loan or advance against its own shares although other banks regard the same as almost gilt-edged securities. Canadian Law not only forbids a bank to grant a loan " on the security or pledge of its own capital stock " but it goes further by making it unlawful to lend even against the capital stock of another bank.[23]

Banks to be Forbidden to Make Advances Against Capital Stock.

It is proposed that Indian joint stock banks be prevented by law to make loans or advances against their own capital stock or shares. No bank should either hold or purchase any of its own shares or stock except when it is necessary to prevent loss upon a debt, contracted in good faith, previous to the coming into force of the new law. In any case stock so acquired should be disposed off either by public or private sale within six months from the time of such acquisition.

Restriction on Loans Against Personal Securities to Directors and Officers of Banks.

A bank shall not ordinarily make a loan to its directors or other officers against personal security but whenever necessary it may make such loans subject to the provision that at no time such loans shall exceed 20 per cent of its paid-up capital. This limit shall apply also to concerns in which the directors of the bank have a direct or indirect interest. Banks may otherwise invest in the shares or stock of a corporation or its bonds subject to a 10 per cent general limit.

22 Early European Banking in India by H. Sinha, 1927, see footnote 1, page 217.

23 The Canada Year Book, 1929, page 847. Also " Indian Finance," Banking Enquiry Number, 1930.

Clear and Full Statements of Assets and Liabilities.

The shareholders and depositors of a bank have a right to know how their money is employed. A bank doing business on a sound and solvent basis should not fear a clear and full statement of its assets and liabilities. On the contrary it will pay a bank to take its clients into confidence by revealing to them its position in a clear manner. It is for this reason that even private banks in England publish their accounts after having them duly audited by respectable firms of Chartered Accountants. But banks in India unless required by law are generally reluctant to publish balance sheets containing adequate information And it is therefore incumbent on the Government of the country to compel banks in the discharge of this duty to the public.

Present Position of Law.

The law as it stands at present, requires a bank to show separately the debts on personal securities and debts which are fully secured and to specify the amounts due from its directors, other officers and the companies with which they are connected. The Government of India intended in 1920 to compel banks to publish fuller and more complete statements and at more frequent intervals. While this was opposed in British India, the state-aided banks of Baroda, Mysore and Travancore have set an example. Their balance sheets every way give a better indication of their respective positions than those of many banks in British India.

Lumping of Items to be Prohibited.

If it is intended that the balance sheet of a bank should be a true indicator of its position, the law must not allow, as I pointed out in my book on Banking Law and Practice in India,[24] any lumping of certain items. As the Bank of Mysore does, fixed, current and savings bank deposits should be shown separately. A distinction between fixed and current deposits, i.e., deposits payable

24 Page 58.

after a certain agreed lapse of time and deposits payable on demand is highly commended by Mr. R. McKenna of the Midland Bank.

Other Improvements Suggested.

Loans and advances obtained by a bank against which it has deposited securities or other collateral should not be allowed to be mixed up with deposits. To effect a clear divorce between deposits placed with a bank and loans obtained by it, the word "borrowings" may be used to indicate the latter. Such distinction is necessary to prevent a bank misleading those desirous of gauging its true position. It will further enable accurate computation for reserve requirements. Another improvement in the form of a bank's balance sheet can be brought about by requiring banks to classify their investments into different types of securities and show them separately. Classification may be on some general basis such as (1) Indian and Provincial Government securities, semi-government or other trustee securities, (2) securities of railways and other public utility companies, and (3) industrial and commercial securities. Debentures, preference, ordinary and deferred shares should be shown separately.[25]

Similarly loans against documents of title to goods, as security, overdrafts, loans granted to directors or other officers of the bank, loans to joint stock companies and individuals on personal guarantees and loans which are considered doubtful must be shown separately under the item of loans and advances.

Frequent Publication of Statements of Position Advocated.

As the law stands to-day, banks are required to submit and publish statements of their position but twice a year. In England, although not bound by law, banks publish statements of their posi-

[25] 'Banking Law and Practice in India' by M. L. Tannan, page 58.

tion once every month. Banks in Berlin have agreed of their own free will, to publish statements of their position once in two months. The New Venezuelan Bank Law (July 18, 1927) requires banks to publish monthly balance sheets. In the United States banks are required to make weekly statements to the Clearing House of which they are members. These weekly reports contain such items as loans and discounts, investments, cash in hand and at bankers, deposits—time and demand, obligations or rediscounts, percentage of reserve to deposits, etc. Such frequent publications of statements prevent much window-dressing. Some banks in India to-day withdraw considerable amounts due to them at the close of every half year in order to make an imposing picture of their position. Consequently, they show a much stronger position than is actually the case. Banks in India should, therefore be required to publish their position at least once in two months. It is advisable to oblige banks to publish these statements not only in English but also in the vernacular of the areas in which they operate. The Central Bank of India, Ltd., and the Bank of Baroda, Ltd., publish their balance sheet in Gujerati and English and the State Aided Bank of Travancore, Ltd., gives against each item of the balance sheet shown in English its Malayalam translation. Every shareholder and every creditor of the bank should be entitled to get a copy of the balance sheet. A copy of the balance sheet shall be filed with the Inspector General of Banks and another copy shall be forwarded to the Director General. A short summary of such a balance sheet shall be published in a local newspaper for at least one full week. It shall be put up at a conspicuous place in each office of the bank. Copies of the balance sheet shall be made available to the public at a nominal cost of eight annas each. The profit and loss account may be published as now, twice a year. In this connection it may be pointed out that the Indian Companies Act does not require a Profit and Loss account to be published with the balance sheet. It should be legally required that the banks should publish them.

Provident Fund or Pension Scheme for Staff.

Banks should be required to have either a provident fund arrangement or a pension scheme so as to insure the loyalty of the staff to the bank.

Directors' Meeting.

A record of the number of directors' meetings held and the attendance of directors at such meetings should be kept and reported to the shareholders at their annual general meeting. There is provision to such effect in Canada.[26]

Indemnity Clause in Articles of Association.

The law must make severally liable directors and other officers responsible for any false statement. The Law should not permit an indemnity clause in the Articles of Association by reasons of which directors generally escape liability even in case of proved negligence of duty. With a view to keep bank managers, directors and auditors alert Japan makes them punishable with penal servitude for breach of regulations or negligence of duty.[27] Such provision will expedite legal proceedings against bank directors and other officers, for then it only needs to show non-conformity to law instead as at present putting criminal law in motion against them.

3. BANK SUPERVISION

Purpose of.

As stated above banking has come to be regarded as quasi-public and consequently it is subjected to the supervision of the state. The main object of this supervision is to safeguard the

26 Section 11 of the Dominion Bank Act, 5th Revision of 1923. (13-14 Geo. V, c. 32.)

The Canada Year Book, 1929, page 818.

27 "Banking Reform in Japan," The Bankers', Insurance Managers' and Agents' Magazine, March 1928, page 383.

interests of depositors as well as shareholders against losses due to unsound or unsafe banking practices. State supervision in some countries takes the form of periodic reports, audit of accounts and in others examination is also insisted upon.

The United States of America.

National banks in the U.S.A. are required to make at least three reports a year to the Comptroller of Currency. They should show in detail their resources and liabilities. They should be sworn in by the President or Cashier and attested by three Directors. An abridged form of the report is required to be published in a local newspaper with a view to keep the public informed as to the condition of the national banks.[28]

Position in India.

The state supervision of banks as is exercised in this country is meagre. The joint stock banks like other companies registered under the Indian Companies Act are required at their annual general meetings to appoint auditors, to hold office until their next general meetings (Sec. 144, Clause 3). Section 145 of the Act defines the powers and duties of an auditor. He has the right of access at all times to the books and accounts and vouchers of the Company. He checks all accounts, verifies the company's transactions and prepares a balance sheet. He certifies that the balance sheet is drawn in conformity with law and that it represents a true state of the company's affairs, "according to the best of his information and explanations given to him and as shown by the books of the company."

Auditor's Duties.

An auditor verifies the existence of assets mentioned in the balance sheet and sees that all outstanding liabilities are brought in, but it is hardly considered a part of his duty to advise the

28 "Money and Banking" by J. T. Holdsworth, 5th Edition, pp. 261-262.

directors or the shareholders as to what they ought to do. An auditor is not a stock-taker. He can depend on the valuation of an expert or as certified by the managing director. According to the dictum laid down in Kingston Cotton Mill Co. (1896, 2 Ch., 673) "an auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him if dividends are properly or improperly declared. His duty is to ascertain and state the true financial position of the company at the time of the audit and his duty is confined to that. He does not guarantee that the books do correctly show the true position of the company's affairs, he does not even guarantee that his balance sheet is accurate according to the books of the company." As some one has aptly put it, he may be a watchdog but he is not a bloodhound. The powers vested in the Registrar of Joint Stock Companies by Section 137 of the Indian Companies Act, 1913, to call for supplementary information from Joint Stock Companies and if he is not satisfied with it or if the additional information is not supplied, to report the matter to the local government, do not in practice prove effective. Similarly, the reservation of the powers by local governments to investigate the affairs of a bank upon the application of shareholders representing at least one-fifth of its capital has not been found to be of any real use.

Bank Examination Likely to Inspire Greater Confidence.

Bank examination as proposed is bound to be far more effective than the audit of accounts by auditors to be appointed nominally by the shareholders but in practice by the directors, as the Inspectors are likely to exercise greater independence in their inspections and reports than the private auditors to be appointed and paid for by the banks. Moreover the Bank Inspectors will, it is hoped, understand better the "intricacies of bank accounts than the public auditors who are not expected to have specialised in banking practices and lastly the banks may also find it to their

advantage to have their accounts inspected by Government inspectors as this fact is bound to strengthen public confidence in the institutions.

Principle of Examination Already Recognised by Indian Law.

The principle of bank examination has been recognised in the Indian Companies Act by the inclusion of Section 138 referred to above. The tremendous power that is inherent in the control of loanable funds and the economic structure of society that such control involves—which all makes banking quasi-public—obligates closer supervision on the part of the Government.

Other Countries.

A strict supervision is enforced in Japan[29] by intensifying the internal check and by providing for external control. The law obliges the bank auditors to submit twice a year to the Finance Minister reports drawn on the basis of a close examination into the substance of the business. These reports must include the results of examination of special items required by law. A bank examination section has been added in May 1927 to the Banking Bureau of the Minister of Finance for a thorough supervision from outside. There are 18 examiners and 54 assistant examiners who are divided into five divisions which are charged with the examination of the banks in the assigned districts. The Comptroller of Currency in the U.S.A.[30] is required to appoint suitable persons to make examination of the affairs of National Banks at such time as the Comptroller thinks proper and to make a full report to him. They come at irregular intervals and without previous notice to

29 Banking Reform in Japan, The Bankers', Insurance Managers' and Agents' Magazine, March 1928, p. 383.

The Japan Year Book, 1928, p. 437.

Document No. 404, National Monetary Commission (U.S.A.).

30 "Money and Banking," by J. T. Holdsworth, 5th Edition, pp. 268—271.

"Principles of Money and Banking" by H. G. Moulton, p. 203.

Modern Banks of Issue by Conant (1915), p. 423.

the banks. The normal examinations cover the entire business of the bank. The examiners are expected to count the cash, examine the discounts and loans, satisfy themselves as regards the collateral securities accepted, scrutinize them and other investments, determine amounts due to the banks including those due from their directors and make themselves thoroughly acquainted with the banks' business, so as to see whether they are being run on sound lines. These reports are sent to the Comptroller of Currency and since 1916 copies of the same are sent to the banks concerned. If necessary the Comptroller calls attention to certain facts; he may ask the bank to write down certain doubtful or worthless assets; he may even require the reduction of the reserve fund to cover losses or may ask the directors to make them up within a certain period.[31]

These officials are paid by the state and the state is reimbursed by means of a levy imposed upon the banks by the Comptroller. The number of reports usually required is three (five prior to the year 1923). Public examination insures soundness of the banks' position though it does not intend to remit in any degree the vigilance of the directors of the banks.

Scheme Suggested for India.

It is therefore proposed[32] that a bank inspection section be added to the Finance Department of the Government of India, the chief of the section should be called the Director General of Banks, and should be directly under the Hon'ble the Finance Member. There should be an Inspector General of Banks in each of the major provinces or the country may be divided into suitable

31 Even private banks are subject to inspection by the National Banking Commission in Mexico.

The Bankers', Insurance Managers' and Agents' Magazine, p. 376, March 1928.

32 These proposals are put forth more by way of suggestions and are in no sense carefully thought out.

divisions for the purpose. Each Inspector General shall have under him at least two bank inspectors and such number of assistants as may be necessary. The Inspectors General and the Director General of Banks shall in the first instance be appointed by the Governor General in Council. With a view to counteract any suspicion likely to be aroused in the minds of the banks and the Indian public, qualified Indians should as far as possible be appointed to these posts. The Bank Inspectors shall be appointed preferably on the results of an open competitive examination in subjects relating to the business of banking, bank accounting, banking law and practice, etc. Stress may be laid on an oral test with a view to judge the personality, bank experience, etc., of the candidate. The Inspectors should start on about Rs. 300 each and go up to Rs. 750 by an annual increment of Rs. 30 (Selection Grade 750—50—1,000). The Inspector General should be placed in the grade of 1,250—75—2,000. The pay of the Director General of Banks should be Rs. 2,500 rising to Rs. 3,500 by an annual increment of Rs. 100. The salaries proposed above are by no means exorbitant as they are essential for getting suitable persons who would overcome such temptations as may be placed in their way in the performance of their duties. These salaries and other expenses of the banking section should be paid out from the Government treasury which should reimburse itself by levying a small cess on the basis of the deposits of the banks to be inspected with a certain minimum.

Cess for Expenses.

The deposits of the Indian Joint Stock Banks together with the Indian deposits of the 18 foreign exchange banks amount to roughly 133 crores[33] and a charge at the rate of 6 pies per hundred rupees will bring in about Rs. 4·16 lakhs which should, I believe, be sufficient to meet the expenses of the department during the

[33] Statistical Tables relating to Banks in India for 1927.

initial stages. The receipts will increase with the development of banking in the country.

Kind of Examination.

With a view to see that the information obtained by the bank inspector and others of the banking section is not disclosed, it should be laid down that every officer on his appointment shall be sworn in not to disclose any facts which may have come to his knowledge in the course of the performance of his duties except when required by law or with the previous written permission of the Director General of the Banks. It should be made illegal for an officer of this department to borrow money from any bank within his purview as well as for a bank to lend to him without the written consent of his immediate officer. Bank examiners shall ordinarily examine without warning, appraise their assets, go into discount and loans and examine other investments. It will be their duty to report about errors and irregularities and suggest changes in matters which shall make for better efficiency and safeguards. They shall have power to go into all the books and records kept by banks. They may express their opinion regarding the adequacy or otherwise of the reserves and shall see that the conduct of the bank is in accordance with law. The Inspector General should have the power to interrogate directors and other officers of banks working in their respective areas. In case of banks whose capital and surplus funds exceed a certain amount, say one crore of rupees, the power of calling attention to their defects, requiring them to write down certain doubtful or worthless assets and to transfer funds for meeting certain losses from their reserve funds or to make them up before paying any dividends, may only be exercised with the previous written consent of the Director General of Banks. Similarly, in their cases interrogatories may only be addressed in consultation with the head of the department. On the basis of the examiners' reports each Inspector General of Banks should make a report to the

Director General as to the condition of the banks within his jurisdiction as found out by means of the examinations. The Director General shall be required to issue an annual report concerning all the banks in India.

Banking Statistics.

The organisation of the department of banking is desirable also in the interest of the collection and publication of up-to-date and useful banking statistics in this country. It is very regrettable to note that the statistical tables relating to banks in India are always stale by at least two years. For instance the tables published in 1929 (the latest available) are those for the year 1927. The cause of this delay is hardly intelligible. These statistics are not quite up to the mark either and in fact they are far from satisfactory. It is not known why the statistics relating to the number of cheques cleared in different clearing houses are not published even if they are collected. There can be no doubt that the work of collecting and compiling of banking statistics will be done far more efficiently and therefore satisfactorily if the department proposed is brought into existence. The reason for this is obvious. It will have free, easy and legal access to various kinds of available banking records. To facilitate the work and to insure its accuracy, the Director General of Banks may supply printed forms and require the banks to fill them up and return to him within a prescribed period.

4. PROTECTION OF BANKS AGAINST DISHONEST MIS-REPRESENTATION OF THE AFFAIRS OF BANKS

Need for Protection and Legislation Against Scandal-mongering; Also the Old Peoples' Bank.

It has been stated above more than once that confidence is the soul of banking. To shake it is to take to ruin the whole banking structure. The gravity of the wild talks against banks is revealed

in the history of bank failures in Japan from March 15 to April 21, 1927, when no less than 30 banks with total deposits of about 900 million yen had to close their doors on account of runs started at some slight incidents.[34] A Reuter's telegram in the 'Times of India' for August 17th, 1929, vividly depicts the ghastly story of how a bank on account of scandalous gossip spread against it, was penalised by depositors fanatically clamouring for their money till the arrival of the emergency currency. In his presidential address at the annual general meeting of the Central Bank of India, Limited, held on 25th February, 1930, Sir Pheroze Sethna referred to "the sinister attempts that are made now and again to damage our credit." If the chairman of a premier Indian Institution, such as the Central Bank of India, Limited, found it necessary to warn its shareholders and depositors against any gossip and if it is always to be in nervous fear of its customers, the position of other indigenous joint stock banks may well be imagined. The harm done by such rumours is incalculable, not only to the particular bank against which such rumours may be set afloat, but also to the other banks as well as the general interests of the country. The necessity for legislation against such misdemeanour is felt when it is told that even in America it is found expedient to punish fraudulent and dishonest misrepresentations of the affairs of a bank with one year's imprisonment and a fine of $1,000. It is therefore necessary to lay down in the Indian Banking Act, a provision by which people spreading unfounded rumours against the stability of a bank should be made liable to a punishment of six months' rigorous imprisonment or a fine of Rs. 500 or both.

Permission to put Criminal Law in Motion Against a Bank.

The law, as it stands at present in India, allows anybody to institute criminal proceedings against a bank as against any other joint stock company. A bank which is the subject-matter of a

34 The Japan Year Book, 1928, p. 436.

criminal case is likely to be talked ill of, although later on it may acquit itself honourably in the case. Besides it is liable to suffer much during the period of the trial which, it is unfortunately true, is a generally long-drawn process in India. It is therefore desirable to provide for the obtaining of permission from suitable authority—Inspector General of Banks or Advocate General of the Province in which the bank has its head office—before any person can put the criminal law in motion against a bank.[35] Such powers to give permission or withhold it, may be exercised at the discretion of the officer designated. It may also be possible to provide against law's proverbial delays by making some provision for an expeditious hearing of such cases as is the case in the matter of election disputes.

5. REGULATION OF FOREIGN BANKS

Need to Safeguard the Indian Depositors and Protect the Indian Banks Against Competition.

The foreign banks known as the exchange banks occupy a very important place in the Indian money market. At the end of 1927 there were no less than 18 exchange banks, having no less than 88 offices in India. Their deposits in India amounted to about Rs. 69,00,00,000—an amount in excess of the total deposits of all the Indian joint stock banks. It will thus be seen that in addi-

[35] "I think it might be considered whether Section 282 of the Companies Act should be amended by requiring the sanction of the Advocate General before any prosecution is lodged under that section. The present Company happens to be an iron and steel company but one can imagine cases of banking companies, for instance, where their credit is a more tender plant than that of an iron and steel company. There are certain provisions in England which impose a check on persons desiring to put the criminal law in motion in other respects which may with a similar check be usefully imposed as regards Section 282, at any rate as regards banking companies in India."

—C. J. the Honourable Sir Amberson Marten in "Shamdasani vs. Tata Iron and Steel Company Ltd.

tion to the foreign exchange business these banks are formidable competitors of the joint stock banks of the country in the inland banking business. At present they are practically immune from any sort of legal restrictions. They do not even publish balance sheets giving proper information about their Indian business. As long as they did not draw funds from the Indian money market, one might not have found much fault with this practice. However, as their borrowings in India are very large, it appears to be necessary in the interests of the Indian depositors that steps should be taken to prevent a crisis that may otherwise result from some trouble to one or more of these institutions abroad. This danger is by no means imaginary when one considers the case of the Alliance Bank of Simla, which, against big liabilities in India, held large assets abroad. The low cash resources—11 per cent in the case of banks doing considerable portion of their business in India and 14 per cent for other exchange banks on December 1927,—are not quite adequate to bear any real strain in the event of a panic in this country. It is true that these banks can get funds from their head offices but it must be admitted that it is not always so easy to do so. Besides safeguarding the interests of the Indian depositors, there are other important considerations such as the protection of the interests of the Indian joint stock banks with which these foreign institutions compete with large and cheap resources at their disposal, as well as the desirability of providing suitable avenues for the employment of qualified Indians in responsible positions in banks which require the regulation of the foreign banks working in this country.

Restrictions on Foreign Banks in Other Countries.

Branches of foreign banks operating at present in the U.S.A. are governed by the respective State laws. Foreign banks are not allowed to receive deposits, moreover the amount and character of their business is defined and limited.[36]

[36] "Indian Finance," Banking Enquiry Number, 1930.

Denmark.

Foreign banks have to obtain permission from the Government before they can open branches in Denmark. They are liable to be restricted in their business. The business managers of foreign banks in Denmark are required to be Danish subjects. No foreigner can become a director or manager of a bank in Denmark.[37]

France and Italy.

France and Italy insist on foreign banks desiring to open branches in those countries, to pay an incorporation tax which is based on their capital.[37] In the matter of income-tax the general law of the land does not govern them but they have to enter into special agreements with the financial authorities. A turnover tax is levied on exchange operations. Along with the domestic banks, foreign banks are required to submit certain returns to the National Treasury. Even in England the Cunliffe Committee lately drew the attention of His Majesty's Government to the freedom with which foreign banks could establish themselves in that country.

Japan.

A foreign bank has to obtain a license from the Minister of Finance before it can operate or open a branch in Japan. The Japanese law precludes foreign banks to the use of any word indicative of bank. The Minister of Finance can impose any restrictions he may choose or he may refuse permission altogether. He may either forbid the bank to take deposits or subject it to a certain tax as he likes. For every branch that a foreign bank opens in Japan, it is required to deposit 1,00,000 yen in the Government treasury or other securities approved by the treasury authorities. When the new Act was put into force, five years' time was allowed to such foreign banks as were already operating there

[37] "Indian Finance," Banking Enquiry Number, 1930.

to comply with its provisions or "any conditions that the government may prescribe in their behalf."[38]

Czecho-Slovakia.

The Czecho-Slovakian Government does not permit foreign banks to open branches in that country.[39] No foreign bank can open a branch in Australia. Curiously enough, the Chartered Bank of India, Australia and China, has no branch in Australia.[40]

Restriction of Foreign Banking to Promote the Indigenous.

These various restrictions referred to above and similar others are intended to nurse and develop indigenous banking institutions by eliminating outside competition and infusing confidence in national concerns by backing them up with the strength, prestige and authority of the State. Stimulus is further obtained from these restrictions necessitating foreign banks to enter into alliance with local capital and management and open separate institutions for handling their foreign operations under local laws.

Suggestions for Regulation of Foreign Banks in India.

In view of the position explained above, the opinion is sometimes expressed that exchange banks should not be allowed to carry on their business in this country. This view cannot be supported owing to the fact that the exchange banks in this country have in the past rendered certain services to the Indian trade particularly the foreign trade of the country but there should be no objection to their regulation on the followng lines:—

(1) All the exchange banks working in India should be required to obtain from the Finance Department of the Government of India, through the Director Gene-

38 Banking Reform in Japan, The Bankers', Insurance Managers' and Agents' Magazine, March 1928, p. 383.

39 The Year Book of the Czecho-Slovakia Republic, 1929, pp. 118-119.

40 "Indian Finance," Banking Enquiry Number, 1930.

ral of Banks, a license which should be given, refused or cancelled after giving one year's notice at the discretion of the Finance Member of the Government of India. All these exchange banks working at present in India, which can satisfy the Director General of Banks that they are keeping adequate resources in India to meet their rupee liabilities and which agree to comply with banking laws of this country should, on payment of the prescribed fees, be granted the necessary licenses.

(2) The exchange banks doing business in India should like the Indian joint stock banks, publish statements showing their Indian deposits and other liabilities; advances and discounts and investments in cash. These should be accompanied by latest balance sheets issued by their head offices.

(3) The Director General of Banks should have the power to ask for any further information he may deem necessary from the exchange banks.

(4) The exchange banks like Indian joint stock banks, should be required to maintain cash resources against their rupee liability.

(5) Foreign banks should be subjected to the inspection by bank examiners and control like indigenous banks. Reports and returns shall be as obligatory on them as on others.

Provisions for the Employment of Indians to Superior Posts in Foreign Banks.

In addition to the above it may be considered whether it is not desirable and proper to require the exchange banks working in this country to throw open at least a certain percentage of their

superior posts in India to the people of this country if and when qualified persons are available or to train a certain minimum number of Indian probationers. In this connection reference may be made to the fact that the new regime in Turkey compels all alien corporations " to take in Turks in their employ on 50-50 basis." " The Ionian Bank was threatened with suppression unless it increased the proportion of Moslems employed to that required by law."[41] It may also be considered whether the exchange banks should not be required to pay any special tax on their profit earned in India.

41 " Early European Banking in India," by H. Sinha, 1928, see footnote 5, p. 220.

The Annual Register (New Series), 1926, p. 207. Even the Ottoman Railway was compelled to employ a number of Turks against its will.

SOME REFLECTIONS ON THE PROBLEM OF INDUSTRIAL FINANCE IN INDIA

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SUMMARY

Banking in any country should be so developed as to promote its many-sided economic activities. Indian banking is conspicuous for its failure to assist the industrial development of the country; nor does there exist in the country an organized capital market. Their place is taken, however insufficiently, by the Managing Agency system—India's unique contribution to the institutional developments of industrial finance.

The Managing Agents are usually men of independent means who are prepared to risk their capital in the preliminary operations incidental to the creation of any large industry. They promote companies, and on the strength of their reputation, get the public to invest their money in industrial concerns. They are also financiers—they either procure funds for the industrial concerns they manage on the guarantee of their own personal financial standing or they lend them money from their own private resources. Finally, they manage the business of the concerns which they finance or assist in financing.

The Managing Agency system has been undoubtedly responsible for bringing about even the little industrial development which exists in this country but it has probably outlived its usefulness. With its limited resources, lack of a banking clientele and an expert technical staff, it can never hope to achieve for this country a rapid and extensive industrial development. At the same time, it is getting to a stage when its usefulness is being outweighed by the disadvantages attendant on its existence, viz., failure to properly co-ordinate the available organizing ability and capital in this country and inefficient management of industry.

A new system will therefore have to be devised to solve the problem of industrial development.

The most common suggestion made for solving the problem is the creation of Industrial Banks. It is assumed that industrial banks will succeed in supplying both the fixed and floating capital needed by industry in this country. As regards the supply of fixed capital, if it is to be done on a scale large enough to speed up industrial development, capital worth several hundreds of crores will have to be raised. Such a course is impracticable under the existing economic circumstances of this country. If industrial banks, then, will only have to supply floating capital or working expenses, it appears highly unnecessary to undertake the trouble of creating new institutions for doing what can be done by the existing banks themselves with a little more of imagination. The only remaining course is to give a new turn to Indian banking, impart it an industrial bias and set it working on the lines of the German Credit banks. It is suggested that a certain amount of state aid should be given to them to induce them to create industrial departments.

It can be taken as almost axiomatic that the banking organization of a country should, if it were really to be usetul, look to the promotion of the many-sided economic life of the people. In other words, there should be an all-round development of banking which, on the one hand, should mobilise all the credit resources of the nation, and on the other, use them for the development of the agriculture, industries, and trade of the country. This can only be done if banking were diversified and the country contained banks that undertook the specialised work of attending to the needs of agriculture, industry, and trade of the country respectively. So far as commercial banking is concerned, India has an organised and widely developed indigenous banking system; though it must be admitted that banking on western lines is still in a crude and undeveloped stage of evolution. As regards agriculture, some kind of an organised attempt has been made from the beginning of this century to create a banking system specially interested in agriculture, and its development is entirely a result of the growth

of the co-operative movement. It is true that this attempt was only partially successful, and left practically untouched the field of long-term capital and debt-redemption. In the matter of industry, however, the Indian banking system cannot boast of even this partial success. Banking in this country has left entirely unexplored the possibilities of co-operation and partnership with industry, with one exception where a big experiment in the way of industrial banking was attempted and resulted in ignominious failure. At the same time, the other essential besides industrial banking for speedy industrial development, viz., an organised capital market spread out over the country is also lacking. In the absence of these two essential preliminary conditions is to be found one of the main causes for the slow industrial development in this country. And yet, we cannot ignore the fact that there has been some industrial development, and this could not have been possible without the aid of some kind of an organised system of industrial finance. In considering projects for the creation of new economic institutions of the type of industrial banks in this country it is desirable to take into account the existing methods, principles and organisation of industrial finance. Only after a preliminary survey of the existing institutions which are acting as industrial financiers can we be in a position to trace defects, offer criticism and suggest remedies. It is therefore preferable to discuss this subject under two broad divisions:

(1) Existing methods of industrial finance—description and criticism.

(2) Suggestions for improvement.

Existing Methods of Industrial Finance.

The financial needs of industry are of a twofold character. Every industry needs fixed capital, and floating capital, in more technical language, block account and current account. The fixed capital or block account covers the initial needs of the industry, the expenses of sites, buildings and, machinery necessary for the

permanent working of that industry; capital for this purpose is necessarily long-term capital for it is a long time before such fixed capital becomes productive. Floating capital or current account covers the ordinary working expenditure of the industry such as, e.g., the cost of the raw material, wages of labour and the remuneration due to the entrepreneur. The length of time for which such working capital is needed depends primarily upon the rapidity of turnover of the article concerned. It may be said that in contradistinction to fixed capital, capital required for working expenses is short-term capital. So that the problem of industrial finance is not merely the provision of long-term capital; as important, if not even more, is the provision of short-term capital which alone keeps the industry going.

In India, as elsewhere, long-term capital for industrial development is provided by the shareholders of joint stock corporations. The only difference is that, whereas in the west, there is an intermediary between the entrepreneur, and the investing public, there is nothing of that sort in India. In the west, the whole system of a regular capital market is highly organised and thoroughly efficient. It is recognised that capital is as much of a commodity as others and needs similar treatment. Thus, for example, if we habitually buy certain articles from a dealer, we are prepared to accept his judgment of the quality and genuineness of the goods he supplies us. We leave to him the task of choosing between different samples of one variety; the manufacturer, on the other hand, is saved the task of discovering and transacting business with individual purchasers. The dealer, then, is a valuable intermediary; similarly, in the case of provision of capital, there are, on the one side, the investing public desirous of investing, but not prepared to choose for itself the objects of its investment; on the other side, there are the entrepreneurs with ideas, and possibly a little money as well, who need capital. An intermediary is necessary; that intermediary is the stock broker and the underwriting house, and the whole paraphernalia of the capital market. With-

out such an organisation there can be no rapid or large scale industrial development. In countries where capital markets are not so developed, and the stock exchange and underwriting business are in their infancy, banks themselves undertake this task of acting as intermediaries between the entrepreneur and the purchasing public. In such cases, the entrepreneur has only to convince the expert management of the bank of the soundness of his proposals; and he will get the capital he requires: the investing public, on the other hand, have only to trust to the judgment and *bona fides* of the expert management of the bank whose clients they are; and they get the proper stock in which to invest their savings. One can therefore easily realise the immense importance of some such organisation in mobilising the idle capital resources of the community. It is a tragedy therefore, that there is no such effective organisation in India. The Indian capital market hardly deserves the name, while the banks do not undertake this kind of work. But there must be some substitute however inefficient it might be—otherwise, there can be no industrial development through the medium of joint stock concerns; for the public will not invest their money unless they have confidence, and at the same time they have neither the patience nor the necessary knowledge to adjudge accurately the merits and demerits of prospective subjects of investment. They want someone in whom they believe, and by whose association with a particular industrial concern they acquire the necessary confidence in that industrial concern itself. This Indian substitute for a capital market and an industrial banking system is the Managing Agent. As the Managing Agency system and the Managing Agents form the basic framework of existing methods of industrial finance in this country, we give below a brief description of this system.

The Managing Agency System.

The following rough definition is attempted by the present writer as summing up the main contents of the concept of the

Managing Agency system. The Managing Agent is an individual or group of individuals with strong financial resources, who do the preliminary work of research and experiment precedent to the starting of new concerns, form and promote joint stock companies, act as their financiers or guarantors and generally manage their business. The main functions of Managing Agencies can then be classified under the following three heads:—

(1) They act as company promoters.

(2) They take the place of underwriting houses, and by their financial reputation, inspire confidence in the investing public.

(3) They supply the working capital of the concerns of which they are the agents, either from their own resources or from borrowed money.

Company Promoters.

It is a well-known fact that before any industrial concern can be started, a certain amount of preliminary work has to be done, involving expenditure of both money, and technical and financial talent. Under present circumstances in India some one individual or a group of individuals has to take the initial risk of investigating into the possibilities of the successful working of the new concern, and start preliminary operations. In the west, the efforts of these initial promoters are rewarded by the grant of ready cash or the allocation of a certain portion of their share capital. In India, they are rewarded by being entrusted with the managing agencies of the concerns in creating which they take the initiative. A notable instance of such a concern which has turned itself into a managing agency is Tata Sons, Ltd., especially with reference to the Tata Iron and Steel Company, the Tata Hydro-Electric Company and the Indian Cement Company. Indeed, most of the big Cotton Mills, and Jute Mills, iron and steel works, tea gardens, collieries, and the greater number of

the Electric Supply Companies and the Light Railways in India were established and controlled by Managing Agents.

It many be pointed out however that not all managing agencies perform this function. They may also come into existence at the time of the liquidation and reconstruction of established industrial concerns, e.g., when the Sir Shapurji Bharucha Mills went into liquidation, a new company was started to buy it up, of which the Sassoon group became the managing agents.

Underwriting Houses.

We have already pointed out how necessary it is that there should be a trusted intermediary to bring together the moneyed investing public, and the needy but brilliant Company promoter. This function is performed in the west by underwriting or Issue Houses, and on the continent, forms a part of the normal work of banks. In India, however there are no underwriting firms or established Issue Houses. The man with ideas and enterprise has therefore to find some one to back him up, in whom the public will have confidence. They assist in the placing of shares on the market and the mobilisation of the people's savings for industrial purposes.[1]

Financiers.

The promotion of Companies, and issuing of their shares are not the necessary functions of every Managing Agency. The most important as well as the most universal attribute of the Managing Agency is the supply of finance.

[1] *Cf.* " The Managing Agency system has done more to provide and attract capital into industrial enterprise than Banks or Corporations."—Evidence of the Bombay Chamber of Commerce before the Central Banking Enquiry Committee.

Also *cf.* " The existing big industrial undertakings in India were practically created by firms whose activity of financing and controlling industry was covered by the plain name of Managing Agents."—*Dr. L. Nemenyi.*

Every industrial concern needs finance of two kinds, viz.,

Fixed capital or Block Account.

Working capital or Current Account.

The former is mostly supplied by shareholders. As regards the supply of working capital or new fixed capital for purposes of reconstruction or extension of the business there are three ways of raising money.

(1) Through Banks.

(2) Through deposits by the public.

(3) Through Managing Agents.

Banks.

The evidence of Indian industrialists and Chambers of Commerce given before the Central Banking Enquiry Committee now sitting at Poona demonstrates the enormous difficulties experienced by them in obtaining financial facilities from Banks. It may be noted that the evidence of European Chambers of Commerce[2] radically differed from this view and stressed the existence of ample facilities to sound concerns. This evidence might be a practical confirmation of the long entertained suspicion that European concerns obtain finance on easier terms than their Indian compeers do from either the Imperial Bank of India or the Exchange Banks. Apart from this, even assuming a genuine desire on the part of banks to be helpful towards industry, they are not prepared to take the risk of financing industry in periods of depression which is the time when it most requires finance. It is thus a fact that during the period 1920—23, Joint Stock Banks found the greatest difficulty in obtaining funds. It is also well-known that banks in Bombay have recently considerably curtailed their advances to textile concerns in the city, while one firm of

2 *E.g.*, Northern India Chamber of Commerce, Bombay Chamber of Commerce, Exchange Banks' Association, Bengal Chamber of Commerce, Karachi Chamber of Commerce, and Managing Governor of the Imperial Bank.

exceptional financial standing and in a fully solvent condition was threatened with a closing of its cash credit just because it was in temporary difficulties. Even when the banks do lend money, they are not prepared to lend it on the security of the stocks in hand or in process or the mortgage of the firm's fixed assets alone; they demand in addition, a solvent and financially strong guarantor; and this happens in practice to be the Managing Agent.[3] So even in the obtaining of finance from banks, the assistance and guarantee of the Managing Agent is found necessary.

Deposits from the Public.

It is pointed out[4] that with very few exceptions, cotton mills generally depend for their working capital to a considerable extent on deposits received from the public. Thus, for the year ending 31st December, 1928, the amount of deposits received by 25 mills reached the aggregate total of Rs. 5·08 crores.[5] As a matter of fact, till recently, public confidence was so well established that mills could obtain deposits at even less than the Bank rate; the Ahmedabad mills obained them at rates varying from

3 " Apart from Government and other Trustee Securities deposited with Banks, it is not uncommon for them to demand and obtain from Mill Companies the Joint Promissory Note of the Companies and its Managing Agents as collateral security for advances made."—Evidence of the Bombay Mill-owners' Association before the Central Banking Enquiry Committee.

Also " In the case of the Imperial Bank of India, to meet the requirements of the Act, advances to Companies of this nature are granted on the security of pro-notes drawn by the borrowers in favour of the guarantors, who are usually the Managing Agency firms and endorsed by the latter to the Bank; and the hypothecation of stocks is taken as collateral security."—Evidence of Mr. K. M. MacDonald, Managing Governor, Imperial Bank, before the Banking Committee.

4 *Vide* evidence of Mr. A. D. Shroff before the Central Banking Enquiry Committee.

5 *Ibid.*, Sholapur mills with a paid-up Capital of Rs. 8 lakhs had Rs. 100 crores; Swadeshi with a paid-up Capital of Rs. 20 lakhs, held Rs. 42 lakhs of deposits.

5 to 6 per cent. But, here again the Managing Agents form a necessary factor in securing such finance. The readiness of the public to deposit funds, and the rate at which they lend the money depend entirely upon the credit and financial standing of the Managing Agents of the companies concerned.[6] Of recent times, even this source of finance is getting dried up on account of the extensive Treasury Bill operations of the Government of India.

Managing Agents.

It has already been pointed out how the assistance of Managing Agents is found indispensable for obtaining money either from banks or by deposits from the public. Besides the assistance which they lend to industries by the guarantee of their name, the Managing Agents often render direct financial aid by granting loans from their own private resources to the industrial concerns which they manage. This, in fact, is the most important function which they perform in relation to industry. And, it is pointed out that in the financing of the working expenditure of textile concerns, tea gardens, collieries, jute factories, iron and steel companies, and power concerns, the Managing Agents play a useful and a predominant part[7] especially in periods of depression when the banks are positively unwilling to grant adequate cash credits to these industrial undertakings.

Even the financing of block expenditure, especially when it is by way of reorganization of an existing concern or the addition of new machinery, is undertaken to a large extent by these Managing Agents. In western countries, such expenditure is financed by the issue of debentures. Debentures, however, do not fluctuate

6 *Vide* the evidence of the Ahmedabad Millowners' Association : "The financing of deposits is possible only on the credit of the Agents. Hence if the Agents are not very substantial parties, they are unable to obtain deposits."

7 *Vide* the evidence of the Bengal National Chamber of Commerce, the Bombay Millowners' Association, the Ahmedabad Millowners' Association, the Indian Tea Planters' Association, the Marwari Chamber of Commerce and Mr. A. D. Shroff.

in value so readily as shares, and therefore are not proper material for speculation. This factor, it is claimed by the Bombay Chamber of Commerce, may be the one responsible for their unpopularity in the markets of western India. And their place is, perforce, taken by the Managing Agents.

General Features of the Managing Agency System.

The Managing Agents, then, are the company promoters, the issue houses, and the industrial financiers of India. Indeed, as was pointed out by one witness before the Central Banking Enquiry Committee, the addition of a department for Commercial Banking to the normal functions of the Indian Managing Agent would make him correspond very closely to the big Continental Bank of the mixed type which has played such an important part in the promotion of industrial development. And, considering the importance of their functions, it is strange that there is no regular constitution for these firms and that they have no systematic organisation. They have come into existence out of the sheer pressure of economic circumstances, and probably represent India's unique contribution to the institutional developments of industrial finance.

Defects of the Indian Managing Agency System.

There are, however, certain defects about the Managing Agency system in India which cannot be ignored. These may be roughly classified as under:—

(1) Divorce between banking and industry.

(2) Inefficient direction and management of industry.

Divorce between Banking and Industry.

While the Managing Agents in India have undoubtedly tried to supply the need for industrial banking, it cannot be denied that the results achieved are not as great as would have been the case, if banking in this country had developed an industrial bias.

Thus, the Managing Agents tend to work in a groove with the result that their outlook on industry becomes conservative, and new industrial propositions are not given the proper attention which they deserve. Secondly, these Agents are not organised into any one association nor do they actively co-operate in the promotion of industry. The result is that they do not have, at their service, the necessary technical and economic experts who alone can decide upon the soundness, practicability and profitableness of proposed new undertakings. Thirdly, the financial resources of these Agents are limited with the result that even in protected and undoubtedly profitable industrial fields, new concerns do not come into existence.[8] Fourthly, whatever their financial standing or reputation, they do not have that intimate contact with the investing public which is possessed by banks, so that they are unable to float or underwrite industrial issues to any considerable extent. In short, the dual existence of the Managing Agency system, and the banks has resulted in a drag on industrial development, the actual industrial concerns floated and worked having a very remote relation to the total savings of the people on the one hand, and the brilliant schemes of the entrepreneur on the other. The Managing Agencies, then, have failed to secure proper co-ordination between the capital and organizing ability available in this country.

Inefficient Direction and Management of Industry.

Whilst we do not forget the yeoman service rendered by these Agencies in making industrial development even possible we cannot deny the charge of inefficient management levelled against

8 *Cf.* Speaking of the Iron and Steel industry Mr. A. D. Shroff asserts : 'That there is a lack of adequate credit facilities for the finance of this industry is widely recognised and this recognition explains why new companies are not started for the manufacture of steel, notwithstanding the fact that the cost of producing pig-iron is cheaper in India than anywhere else and that the annual consumption of steel is much larger than the total producing capacity of the existing companies.' —Evidence before the Central Banking Enquiry Committee.

them. The following are the reasons alleged by those who ought to know about the matter:—

(1) Managing Agents are interested in securing employment for their friends and relatives in the concerns managed by them and thus sacrifice efficiency and talent to short-sighted views of their own interests.

(2) Managing Agents are interested in getting the raw materials, etc., of the concerns managed by them supplied by their friends and relations who are encouraged to charge prices higher than the market rates. The cost of production is thus unduly raised and the industry naturally gets a reputation for inefficiency.

(3) The method of remunerating the Agencies used once upon a time, to be that of allowing commission on production instead of sales, with the result that the Agents used to embark blindly on a career of production without any reference to the nature and extent of the demand. Fortunately, this practice is now going out of vogue and being replaced by one of commission on net profits.[9]

(4) Being not directly interested in the fixed capital of the companies they manage, there is a possibility of these Agents not paying careful attention to the shareholders' interests in expending the money. Sometimes it is alleged that concerns are run into voluntary liquidation, when the Managing Agents

[9] Reminiscent of the old times is the case now pending against the Managing Agents of Manckji Petit Mills, who in their terms of agreement with the Company, inserted a clause of a commission of a certain fixed amount on every lb. of cloth produced by the Company. It is contended by the shareholders that this clause is unjust and out of-date and should be replaced by one of commission on net profits.

form a new company and take over the assets and stock of the old one at abnormally low prices.

(5) The interests in Managing Agencies are heritable assets with the result that there is every possibility of the control and guidance of industry passing into the hands of absolutely inefficient persons.

Summary.

The Managing Agency system is an institution which has played a cardinal part in the industrial development of this country. To this institution is due the creation and continued existence of such of the industrial concerns as have survived in this country in spite of the admittedly commercial character of the Indian banking organisations which were devoid of any industrial bias. While recognising the services rendered by this institution to industrial development, it must be admitted that in their present form, they have almost outlived their usefulness. The Managing Agency has not resulted in any considerable co-ordination of capital and organisation, nor has it obtained any conspicuous success in the management of industry. The larger interest of industrial finance for Indian industrial development therefore demands either a reform of the old one or the creation of a new one which will have, as its sole objective, extensive, speedy, and sound industrial development. These, then, shall be the criteria which we shall apply to any proposed schemes of financing Indian industry.

(1) It must ensure industrial development on a large scale.

(2) It must speed up industrial development.

(3) It must not result in the reckless promotion of bubble companies the failure of which will destroy public confidence, but should create sound industrial concerns.

(4) It should be practicable.

In short, it must mobilise and co-ordinate the available capital and organising ability in this country for purposes of rapid and extensive industrial development.

Industrial Banks.

The solution most commonly suggested is the formation of Industrial Banks, either on an all-India basis or for each individual province. While the European Chambers of Commerce and industrialists are almost unanimously against the creation of industrial banks, Indian industrialists and associations have declared themselves categorically in favour of such banks.[10] The Industrial Commission was first responsible for popularising the advocacy of industrial banks. After declaring themselves in favour of the creation of industrial banks, the Commission proceeded,[11] "We are of opinion that an industrial bank should possess a paid-up share or debenture capital high in proportion to its total business, it should observe the usual precautions in not allowing too large a share of its funds to be used for the benefit of any single interest or group of financially interdependent interests; its loans on plants, buildings and land should be carefully considered and should be limited in each case; the larger portion of its industrial business should be confined to the provision of working capital; it should provide initial capital with caution, at any rate during its opening years, and should not itself at first attempt to float companies, though it may advise and assist in other ways the persons who propose to do so. The main factor of safety in an industrial bank is the judicious limitation of each class of business to its proper proportions." Elsewhere, the Commission observed,

10 *E.g.*, The Bombay Millowners' Association, the Southern India Chamber of Commerce, Karachi Indian Merchants' Association and Buyers' and Shippers' Chamber, Andhra Chamber of Commerce, Marwari Chamber of Commerce, the Ahmedabad Millowners' Association, Mr. A. D. Shroff and Mr. S. N. Pochkhanawala.—Evidence before the Central Banking Enquiry Committee.

11 Industrial Commission's Report, para 291.

"An industrial bank with a sufficiently large capital to ensure its safe working must, at any rate for some time, combine ordinary banking business with its industrial activities to enable it to obtain a return on its capital."[12] Four facts stand clear from the preceding description:—

(1) The Bank should, in addition to its industrial activities, carry on commercial banking.

(2) The Bank should look mainly to the provision of working capital.

(3) The Bank should not float companies.

(4) The major portion of the Bank's resources shall be drawn from paid-up share capital and debentures.

The question of industrial banks in India really resolves itself into this—are they to assist industrial development by supplying fixed capital and directly participating in new issues or not? The Industrial Commission's reply is in the negative, so far as the immediate future is concerned. There are others who are more hopeful. If the main function ot an industrial bank is going to be the supply of fixed capital, then it must have an adequate amount of financial resources. Such financial resources will have to be tied up for a long time, and cannot obviously be raised by deposits from the public. The money required will have to be raised from share capital and debentures. And the suggestion is that there should be one industrial bank for every province in India. Assuming that each bank has a minimum spare capital of Rs. three crores each, the total money required will be at least Rs. 27 crores. This amount cannot be raised unless the state guarantees payment of interest as well as capital. Payment of interest will not involve a great financial strain; but payment of capital is a risk which the state cannot undertake for this reason that the risk is very real; unless the new industrial banks take great risks, they will

12 Industrial Commission's Report, p. 181.

not succeed in promoting industrial development; if they do take risks, the state stands every chance of being called upon to pay the shareholders, and the enfeebled Indian taxpayer will be the sufferer. Even assuming that on grounds of national necessity, the state is willing to undertake this risk, industrial development cannot be brought about on a profitably large scale unless the banks have much larger resources to operate with than the 27 crores which will be their share capital. Even the present industrial development of India has cost this country capital exceeding several hundreds of crores, though it is admitted on all hands that the development has been painfully slow and on a small scale. The protagonists of industrial banks propose to acquire the larger resources required by the banks issuing debentures to the value of several times their share capital the multiple varying from 5 to 20. Whether these debentures will be taken up by the public, however, is a very doubtful question. Unless Government guarantee repayment of the debentures as well, they will not find a market; that, however, is a course which they can in no circumstance follow, looking to the fact that it would thereby commit them to the payment of several hundreds of crores of rupees. Without Government guarantee, the debentures will not find a market. Even a company of the financial standing of the Tata Iron and Steel Company had to raise its debenture capital outside India. Even if the new industrial banks start commercial banking business thereby attracting clients whom they can persuade into purchasing their debentures, it will take a long time before they will obtain a sufficiently large number of clients and acquire the necessary credit in their eyes. We may therefore dismiss as impracticable the suggestion that industrial banks can finance the fixed capital expenditure of industrial concerns. The extent to which they can do so is certainly limited and will not result in rapid industrial development.

The other function which is assigned to industrial banks is that of financing the working expenses of industrial concerns.

Advocates of industrial banks for this specific purpose however must remember that even to-day, ordinary banks do lend considerable sums of money to sound industrial concerns. Industrial concerns obtain a large portion of their working capital from banks though with difficulty and on the guarantee of the Managing Agents. The complaint is also made that the banks require too large a margin; and withdraw their assistance in times of depression. These unhappy results arise from two causes, viz., the absence of licensing warehouse which will provide industry with liquid and negotiable securities, and the absence of an industrial bias on the part of Indian banking. As regards the first defect, most of the Provincial Banking Committees have reported in favour of the creation of Licensed warehouses, preferably with State Aid. That will provide banks with negotiable securities and will remove one of their objections to lending money to industry.

As regards the second, we detail below ways and means of giving banks in India an industrial bias. By Banks possessing an industrial bias we mean banks which will work on the lines of the German Credit Banks. Such institutions will not only supply the working expenses of industrial concerns, but will also assist in the creation of new concerns and bring about industrial development.

Thus, these Banks will have, in addition to their commercial banking business—which is their main source of profit—an Industrial Department. The most recent book on joint stock banking in Germany thus describes their functions: "The current or short-term business of credit banks has assisted them in carrying out promotion and issue transactions. In most cases they have been able to approach the latter with a full knowledge of the undertakings concerned, or of similar undertakings, based on continuous business relations: they have been at hand to advise their customers as to the prospects for placing an issue in the capital market, and when the outlook has been temporarily unfavourable they have been able to make advances in anticipation of the

success of a later issue. Finally their wide connexions amongst the investing public, for whom they act as brokers, have assisted them in placing securities."[13] Their commercial banking thus helps their industrial banking operations; and their industrial banking increases their commercial banking business. As Whale points out: "The distinctive characteristic of joint stock banking in Germany is the integration of branches of finance which elsewhere are often separated." The industrial activities of German Banks, however, observe the following conditions:—

(1) Policy one of promotion of new industrial concerns and the placing of their issues on the market rather than one of direct participation by subscription to share capital. Even when the banks do subscribe to the share capital, they do so in conjunction with a special syndicate formed for the purpose, and the investment is for a strictly temporary period.

(2) Before the Bank sponsors any new industrial concern, it makes the fullest enquiries, both technical and financial, regarding the prospects of its success. This is done by the experts employed by the Bank specially for that purpose.

(3) After a Bank sponsors a new industrial concern, it does not regard its task as complete with the mere floatation of its issues. It regards itself bound to look after the interests of that concern, since it is on the Bank's recommendation that its clients have ventured to invest their money in that concern. This is done by the Bank nominating on the Directorate of these concerns, and even on their superior managing staff experts selected by itself. The appointment of these experts serves a double purpose. On the one hand,

[13] "Joint Stock Banking in Germany," *P. Barret Whale.*

it helps to keep the concerns at sound working and assists the banks in the creation of more new industrial concerns; on the other hand, it keeps the banks fully acquainted with all the details of these concerns, thereby rendering safe their advances to them for working expenses. It further brings about a profitable co-operation between banking and industry. Indeed, the most remarkable feature about German industry is the number of such nominees who serve on the directorates of industrial concerns.[14]

...(4) Concerns thus sponsored by Banks become their clients so far as capital for their working expenses is concerned. Not only do banks help them in this direction, but they most valiantly come to their rescue during periods of depression.

(5) Their direct participation in new industrial concerns by way of subscription, in other words, their industrial investments never or hardly ever exceed

14 *Cf.* the following table compiled from Whale, *Ibid.*, p. 50.

Representation of the Banks on Industrial Boards of Supervisors—1911.

Industry	Number of Representatives.	Industry.	Number of Representatives.
Mining and Smelting	... 114	Buildings ...	... 9
Stones and Earth Products	... 19	Artistic Products ...	... 2
Metal Working ...	... 41	Commerce and Finance	... 149
Machines and Instrument-Making	64	Insurance ...	... 28
Chemicals ...	... 20	Transport ...	... 94
Oils and Fat Products ...	... 80	Foreign Companies ...	... 82
Textiles	... 34	Hotels and Restaurants	... 1
Paper	... 8	Wood and Wood Products	... 1
Rubber	... 3	Land Development Companies ...	54
Food, Drink and Tobacco	... 25	Electricity ...	... 57

their share capital and reserve. They rarely encroach on their short-term deposits for their long-term needs. As there is some misconception on this point, we reproduce below a table compiled from figures relating to continental banking in 1928 specially prepared and supplied to the Central Banking Enquiry Committee by Dr. L. Nemenyi of Hungary.

Name of the Bank.	Capital and Reserve.	Long-term investments "locked up."	Percentage of long-term investment to Capital and Reserve.
	(*In lakhs of Rupees.*)		
Societe Generale de Belgique	45,40	37,24	82
Banque Bulgare de commerce	16	5	30
Kjobenhavns Hundelsbank	6,07	6,75	111
Deutsche Bank	14,98	9,50	63
Societe Generale	6,66	1,24	19
Banque Commerciale de Grece	1,55	1,92	123
Amsterdamsche Bank N. V.	11,84	1,55	13
Banca Commerciale Italiana	18,60	13,60	73
Den Norske Credit Bank	3,37	3,37	100
Oesterreichische Credit Anstalt	4,76	4,88	102
Bank Handlowy Warszavine	76	64	83
Banca Chrissoveloni	91	1,28	139
Skandinaviska Kredit-Aktiebolaget	13,65	4,87	36
Schweizerische Kredit-Sanstalt	10,61	3,02	28
Banco Hispano Americano	4,15	4,28	103
Erste Kroatische Sparkasse	76	1,89	247
Zivnostenska Banka	3,76	5,28	140
Pester Ungaritche Commercial Bank	2,60	2,05	18

It is obvious that in the great majority of cases, the long-term deposits are either less than or hardly exceed the bank's capital and reserves.

The practical question now for us to consider is how this industrial bias is to be imparted to the Indian banking system. We have seen that it is impossible for any bank or group of banks to finance the capital expenditure of industry on the strength of their resources alone. The aid of the investing public has to be sought, and for this Investment Trusts are needed. Investment Trusts, however, suffer from the same disadvantage from which Industrial Banks will suffer, viz., that they have to build up a new clientele. It is however difficult to induce Indian banks to take up this business for this reason that their capital resources are low and already invested in buildings; and secondly they have not at their disposal an expert technical and financial staff without the aid of which they cannot examine proposals for industrial undertakings. And unless some kind of State aid is given to them, they will not venture on this new business. There is no reason why the state should not render its assistance. Banking is as much of a key industry as is iron and steel, for example. The exact form that state aid should take is a matter on which our suggestions are by no means final. But we may offer the suggestion that the state should give bounties to banks for the employment of a technical staff. The state might also guarantee the payment of interest on debentures issued by banks to a limited extent. The process of industrialisation will be hastened if some of the abler among the Managing Agents are pressed into the industrial service of these banks. By this method industrial concerns will get working capital, there will be some guarantee of their being properly managed, and new industrial concerns can be started with rapidity.

In conclusion, we feel compelled to emphasise that all the suggestions made by us above are only half-way measures to secure industrial development. They will not go far, unless the

State in India shows a change of heart and not only adopts but carries out a vigorous policy of actively encouraging Indian industries. This can only be done by a protectionist tariff, other forms of State Aid, and most important of all, manipulation of the currency and credit of the country in the interests of internal trade and industry rather than of foreign trade and foreign exchange.

PROBLEMS OF INDUSTRIAL BANKING AND FINANCE

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SUMMARY

The Banking System of India following the peculiar English commercial banking system has not only failed to serve the long-term needs of industry but is inefficient even in the performing of its narrow function. The inadequacy of working capital for industry and its high cost call for urgent remedy and the crying need of industry is an extension of banking facilities. The need for a more liberal outlook on the part of banks is emphasised. It is impossible to reorganise Indian deposit banking with a view to enabling it to finance the permanent expenditure of industry and its long-term needs. A special institution is required, the industrial bank being the most suitable agency. It must be on a provincial basis with a co-ordinating central board. It must be allowed to do a certain limited amount of commercial banking. For the financing of smaller industries an improved State Aid to Industries Act in all provinces is recommended; but the administration of the Act is to be entrusted to a special body of technical and banking experts, which will be able to examine both its technical and business conditions of success. For the financing of cottage industries, the same administrative machinery may be availed of; but assistance should be rendered through the agency of co-operative associations, the formation of which should be encouraged.

Introduction.

At a time when the banking organisation of the country is being reviewed with a view to improving it, it seems desirable to crystallise our ideas on the financial needs of industry and on the

manner in which an efficient banking system may be expected to serve those needs. That the problem of industrial finance is closely linked up with the nature and development of the banking system of each country cannot be doubted. The Scotch banking system regarded as the classic banking system of the world had been designed to finance industry and promote the economic development of the country. Europe has followed the same principle and while Germany affords the most outstanding example of the fusion of functions, combining commercial and investment banking, she is certainly not peculiar in her banking practice. The banks of Belgium, Sweden, Austria, Switzerland and many other countries in Europe have been more or less 'universal' providers and there is no sign that these industry-financing types are likely to modify their main structure. Indeed after the War the commercial banks of the world tend more and more to the pre-war German type of institution, nor "is there any perceptible feeling that this new trend is to be objected to but rather the reverse."[1] In the U.S.A., the same tendency seems to be at work and the McFadden Act of 1927 expressly allowed national banks to embark upon business as issuers and dealers in investment securities.[2] It was only in England that specialisation of functions had been adopted and carried to an extreme point, the ordinary banks supplying only short-term credit to trade and industry leaving the task of long-term financing to various other financial institutions. But this division of functions had at last resulted in a high degree of efficiency in commercial banking and trade and industry were able to get their short-term requirements on the cheapest possible terms. Further England had large capital resources and special financial institutions and hence on the whole her industries were able to provide themselves with fixed capital and long-term credit without much difficulty. But even so, it is now admitted that there is a gap in the financial machinery and

1 Foreign Banking Systems, Pitman, p. 43.

2 *Ibid.*, p. 41.

special measures have been recently taken to fill in this gap. Further after the War even the British banks have been disposed to broaden their policies considerably and to abandon their comparatively pure standards of banking practice. It is therefore in some ways unfortunate that the Indian joint stock banks following the lead of the Imperial Bank should have closely followed the somewhat unique English system with the result that they are thoroughly ill-fitted and ill-equipped for the task of giving extended credit to industry. It is true that the indigenous banking system of the country had not made any real distinction between one kind of credit and another; but the financing of industry had never formed part of a regular and organised plan or system. However, in any reorganisation of the Indian banking system we must build only on the existing foundations and unfortunate as the line of development of her commercial banks might have been, our arrangements for the financing of industry must have regard to the character of the Indian deposit banking.

II. Working Capital.

But the complaint against the Indian banking system is not so much that it had not achieved what it never intended to do as that it had failed to fulfil the main purpose which it had set itself out to achieve. In England especially since the process of concentration in banking started, one of the most essential requirements of industry, that of short-term credit, is fully, cheaply and efficiently met and the remaining problem of industrial finance is only that of finding agencies for the supply of initial capital and capital for extension and improvements. In India, on the other hand the problem of supplying working capital to industry is perhaps even more serious and urgent than that of supplying initial capital. Too often all the capital raised by industry in India is exhausted in setting up the factory with the necessary equipment and loans have to be raised with the greatest difficulty and on the most onerous terms

for current requirements. The need for working capital arises from the fact that an interval of time occurs between expenditure on production and realisation from sale and that during this period the manufacturer has to carry a considerable amount of capital liability. The amount required of course varies from industry to industry and may be reckoned at a value of about 6 to 8 months' output in normal times.[3] It forms again about 20 to 30 per cent of the total block capital of a business. In the Tata Iron and Steel Company the working capital required is as much as $2\frac{1}{2}$ to 3 crores of rupees.[4] But even in other industries like cement and paper it amounts to 12 to 15 lakhs of rupees for each factory. Part of it is usually secured by the ordinary methods of capitalisation, i.e., by the issuing of shares; but industry relies chiefly on banks for current finance. Unfortunately however there are no banks at all in some of the industrial centres in India and the smaller industries of many provinces have often even no remittance facilities. Several concerns in Bengal, Bihar and Orissa have had to wind up their business for want of small funds of working capital although their investments in plant and building, etc., were ten to fifteen times the amounts needed by them.[5] Some of the private collieries in Bengal had been put to such straits that they had to borrow at 36 per cent.[6] Many of the private and Indian-owned tea estates have had to borrow for their working expenses from the moneylenders at high cost. The inadequacy of funds and the high cost of such as are available are the first element in the problem of industrial finance in India and the problem of providing initial capital to industry is only subordinate to the former. It is in this respect that the contrast between India and other countries is seen to her great disadvantage. Other nations

3 Report of the Indian Tariff Board, Paper and Pulp Industries, p. 52.

4 Statutory Enquiry (Steel), 1926, Vol. II, p. 310.

5 Industrial Commission Report, Vol. II, p. 227.

6 *Ibid.*, p. 286.

have still to grapple with some of the problems of long-term credit, but India has to attack both aspects of industrial finance. The crying need then of Indian industry is an extension of banking facilities. It is useless to fritter our energies in arguing whether development should be on the lines of amalgamation and extension of branch banking or on those of independent local units. Where there is such serious shortage, both would be equally welcome; but the trend of banking developments all over the world has been towards concentration with extended branch banking. In the economic development of Canada and Australia, the ramifying influence of the big banks has been powerful. Industry cannot develop rapidly in India until commercial banking is more widely and rapidly developed. In the very extension of ordinary commercial banking, lies the hope of industry to get one of its difficulties resolved.

The paucity of banks and the lack of banking facilities are not the only difficulty; the rigidity of the conditions under which they work and the conservative policy they have been following have equally been responsible for their failure to meet the short-time needs of industry. In South Africa, under the cloak of overdrafts which are nominally repayable on demand banks have been advancing money for long-term, intermediate and short-term periods and although there is great danger in this, it shows how under the dominant motive of industrial development, banks can help industry in every way. In India the ordinary joint-stock banks have been very timid and cautious; but the blame cannot of course be solely laid on them. The system of cash credits adopted by the Imperial Bank and others is not sufficiently elastic especiallly in times of economic depression[7] and should be replaced as far as possible by the system of discounting short-term bills. Banks should also lend more freely on stocks of goods and products in course of manufacture. The system of keeping the goods under

7 Cotton Textile Industry Enquiry, Vol. I, p. 91.

the lock and key of the banks without giving suitable facilities for sale should be abolished and independent warehouses should be established under legal safeguards, whose warrants could be used as collateral, thus dispensing with the need to hand over the goods to the banker. Provision should also be made for the independent valuation of goods so that the banks may be able to dispense with the present arbitrary methods of valuing them and to advance as much as possible without fear of loss Above all, banks should be animated by a desire to assist industry, without of course surrendering their principles of safety.

III. Initial Capital.

The starting and equipment of a factory or any other kind of business involves considerable initial outlay which is more or less permanently fixed in it and cannot be got back at will. This must ultimately be secured from the investing public but the difficulties in raising the necessary capital have often killed many a venture. There are some who contend that a good proposition will always command enough capital; but this is true probably in no country, least of all in India where the public are ignorant and conservative. In the case of industries on the usual lines backed by well-known names or reputable managing agents, there is perhaps no great difficulty. But, for all new ventures and for small businesses the greatest possible difficulty is experienced in raising capital. But this handicap is not peculiar to India; on the other hand the overinvestment in some industries, e.g., oil industry, rice milling, etc., is evidence of the willingness of the public to invest in what they regard as successful industries. Owing to the doubt in the minds of the investor about the value and character of any new proposition placed before him, there exists "a gap between the sources of demand for capital and the sources of supply which constitutes a sort of economic distance "[8] which can be bridged only by the organisation of an intermediary agency.

[8] Lavington, English Capital Market, p. 103.

It should be an expert investigating body with the necessary technical and financial staff able to examine impartially the prospects of any new venture and if the enquiry proves the soundness of the enterprise can present it to the public with the implicit guarantee that it has a claim to the capital which it seeks. There are other advantages of having such an agency, as for instance a great economy of social energy and a well-balanced distribution of capital among various industries. The absence of such machinery in India is a serious handicap to the raising of capital and has resulted in an enormous waste in its supply. The large number of companies that annually go into liquidation owing to under-capitalisation, ill-conceived projecting and mismanagement is a measure of this waste. It is true that some of the managing agents have been functioning as an expert body of this character but they are not willing to pioneer and survey new fields. There have been individuals like the late Jamsetji Tata who have spent enormous sums of money and energy in the investigation of propositions but there are no organised institutions like the great German Gross Banken or the issue houses of England that promote foreign companies. It is here that the supreme advantage of having specialised institutions to investigate and promote new companies is felt. The banks in India, not even the Imperial Bank, can be organised to undertake this function like the great banks of Germany. Some new agency should be set up whose main purpose would be to function as an expert promoter of companies.

Theoretically this work can be performed by an agency which does not seek to undertake the further task of issuing and underwriting the shares of the new concerns that it promotes with its imprimatur. But there are great practical advantages in its combining the underwriting function too. Further in any case, as long as the ordinary banks in India are unable to underwrite industrial securities, some new financial agency must be devised. The Tata Hydro-Electric Scheme despite the excellence and thoroughness of its planning and promoting could not get command of the

required capital without great initial difficulty.[9] Hence the establishment of an industrial bank which would serve both as an investigating body and as a financial institution is the only proper solution.

But what is to be the size and scope of the proposed industrial bank? The answer would depend upon whether the bank is to be provincial or all-India. There are of course considerable advantages in having an All-India Industrial Bank. It can be conceived on bold lines; its share capital and debenture capital may run to several crores; it can have command of the best brains both for its technical and financial work. It can take a broader view of industrial development and, inspired by a definite policy of industrialisation of India can utilise the resources in the best possible manner. All these are no mean considerations; but if despite such advantages provincial industrial banks are here preferred, it is because there are two weighty considerations on the other side. In the first place certain provinces less well-developed than others can have no assurance that an All-India bank with provincial branches will serve their needs well. It is not that they charge a central body with any conscious bias; but there is no doubt that owing partly to the distance between them and the centre and partly owing to inevitable influence of the bigger industrialists, the interests of some of the less advanced provinces are not likely to receive the consideration that is their due. In the second place, the industrial banking organisation must have regard to the future Indian federation. Provincial industrial banks with a central co-ordinating and advisory board seem on the whole to be the wisest line of development. The size of each provincial bank must have regard to the work it will be called upon to perform; but it should have a fairly large capital of, say, one crore of rupees. A provincial industrial bank may not be able to keep on its staff men able to survey and scrutinise

9 The Life and Life-Work of J. N. Tata by Wacha, p. 70.

all kinds of new and big enterprises; but it is here that the work of the central co-ordinating board will come in. The latter will be able to find either from other provinces or elsewhere the men capable of performing this task.

If the organisation is to be provincial, it follows that owing to the absence of a wide range of industries in each province, the bank must be allowed in its initial stages at all events to undertake commercial banking too. In that case, the wise warning of the Industrial Commission about the need for making a clear distinction between short-term and long-term deposits and using only the latter for the financing of the long-term needs of industry must be kept in view.

It is not necessary to examine here the several functions that the industrial bank may be expected to do or the nature of the assistance that Government should render in the bringing into existence of the bank. The guaranteeing of a minimum dividend for a limited period and the subscribing for a certain portion of its share or debenture capital will be the most suitable form of assistance. The industrial bank will, by inspiring confidence in the investors, ultimately be able to bridge that gap that now exists in India between the investing public and industry.

IV. Capital for Extension and Improvement.

The capital required for extensions and improvements is different both in the nature of its demand and the sources of its supply from initial capital and working capital. Ordinarily it may be said that the capital required for extension is capable of being repaid after a period of time. Hence although it is open to a business to raise this capital by issuing shares, the usual practice is to utilise the profits of the company held in reserve. In the building up of British companies and their expansion, the creation of reserves of profits had been a great factor. The automatic savings of the public, accruing to the companies every

year have enabled them to expand without resort to the public market for capital. In India too a similar policy should be adopted and the wise plan of placing to reserves substantial sums is advantageous both to the shareholder and the company. At present much of the extension is being carried on with the aid of private deposits placed in the hands of certain industries repayable at short notice. But this habit of using short-term deposits for extension and improvement is injurious in several ways and must be given up. There is little doubt that the depression in the Bombay cotton industry was accentuated by the financial difficulties caused by the necessity to repay the deposits on the one hand and their failure of their renewal on the other. The only method other than that of using the reserve profits of the company is for the business to raise a debenture loan for a short period. The industrial bank can assist industry by advancing long-term loans on the mortgage of the company's assets. Such advances may be financed by the bank by issuing bonds in the market supported by such mortgages and the bank's own general assets. In the financing of capital extension and expenditures of industry, the industrial bank has an important function to perform.

V. The Financing of Smaller Industries.

It is doubtful if the industrial bank even with its branches in the important industrial centres will be able to reach the smaller industrialist and in any case special provision must be made for the financing of cottage industries. A more direct form of financial assistance by the State seems desirable in such cases. The passing of the State Aid to Industries Act in Madras, and in Bihar and Orissa is a step in the right direction and similar legislation must be adopted in other provinces. But the working of the Act in Madras, and in Bihar and Orissa has already revealed the limitations and dangers of state-aided finance. The Act has not been quite successful in its working and the

paucity of applications for assistance while revealing the need for liberalising the Act in some directions has also proved that financial handicaps are not the only serious difficulty in the way of industrial development. The governments have sustained a heavy loss and the results of their new venture have not been altogether satisfactory. Only nine applications received help in Madras up-to-date of which nearly five ultimately failed.

The fact is that the attempts on the part of Government to grant loans and other forms of financial assistance directly through the Department of Industries were bound to fail as long as no suitable and efficient machinery was devised to disburse public funds after proper investigation. Government would always be inclined to give "undue consideration to the general bearing of an industry on the future economic development of the country and not sufficient attention to the question whether the conditions of business success are present in the individual undertakings that apply for aid." Further the Department of Industries even when assisted by a Board is not sufficiently competent to judge of the credit-worthiness of the applicants. Even in the judging of the technical conditions of success of a factory, serious mistakes have occurred. A match factory in Bihar which had been liberally financed by Government had soon to wind up because there was a failure in the supply of raw materials.[10] In certain other cases some of the machines recommended to be purchased by the department were found to be unsuitable and handed over to it with the result that the "department became a museum of obsolete machines."[11]

What is required then is the handing over of the administration of the State Aid to Industries Act to a statutory and authoritative body consisting of representatives of the banks and particularly of the industrial bank and technical men. A new machinery should be devised in each province with the assist-

10 Banking Enquiry Report, Bihar and Orissa, Vol. I, p. 101.
11 *Ibid.*, p. 100.

ance and co-operation of the banks, whose task will be to administer and account for the funds handed over to it by Government. The Department of Industries should also be reorganised with a view to enabling it to supply efficient technical advice and assistance to the proposed statutory body and to the industrialists in general.

With regard to cottage industries the same machinery might be availed of. But the recommendation of the Director of Industries should be an important governing factor. The formation of special co-operative associations should be encouraged and financial assistance should, as far as possible, be rendered through the agency of such associations.

LABOUR RECRUITMENT AND WAGES

BY

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Supply of Labour.

The presence in our cities of an army of landless labourers anxious to find some kind of employment for maintenance is no longer the characteristic feature of a year of famine or scarcity. With the growing pressure of population on land an increasing number of agriculturists find insufficient occupation in the villages. The absence of institutions like *employment bureaus* or *labour exchanges*, which could direct such men to proper places, compels them to wander about from place to place or to flood the nearest town for the sake of employment. The joint-family system makes such migration both easy and profitable. Thus a poor and ignorant mass of simple and untrained rural folk glut the labour markets in important industrial towns like Cawnpore, Nagpur, Ahmedabad, Bombay or Madras.

Industrial Life.

The conditions of life and work to which they are called upon to adapt themselves in industrial areas are very different from those to which they are accustomed in the villages. The simple open air life of the country-side gives place to life in closely built *chawls* or barracks honey-combed with one-room tenements which effectively screen the inmates from air and sunshine during the major part of the day. The dust and dirt of streets, the filth and stink of the drains, the low and expensive

pleasure of the cinema, the gambling den, the liquor shop, and the brothel—these are the poor immigrants' daily experiences in the city. To all these the unfortunate rustic submits with characteristic resignation.

Methods of Recruitment.

Having settled in the city our labourer sets out on his job-hunting expedition. He soon finds out from placards prominently placed on the gates of every factory that he has to proceed in a different way: with the help of some kind friend he is presented to a *Sardar* or jobber who promises him employment on a cash consideration (varying from Rs. 5 to Rs. 10 or even more) which is not infrequently supplemented with a monthly commission or *Dasturi* (amounting half-an-anna to an anna per rupee). So firmly is the labourer held in his grip by the Sardar that any delay or hesitation on the part of his victim in paying this commission may end in almost immediate dismissal to which there is hardly any appeal. Powers of dismissals, fines, leave-giving, etc., though technically in the hands of higher authorities, such as the manager or heads of departments, are in practice exercised by the jobbers or head-jobbers and are frequently abused by them for personal gains. During the period 1927 to 1929 when I was a member of the Working Committee of the Cawnpore Mazdoor Sabha, several representations were made to the local mill-owners to abandon the policy of recruiting labour through Sardars and to utilise the services of the Sabha for supplying all their demand of labour or at least to appoint some responsible officer of the mill to supervise recruitment on the mill gates, but in vain. In this connection the Bombay Millowners' Association deserves congratulations on the circular which it issued early this year to all mills affiliated to it instructing them to introduce the policy of direct recruitment of labour instead of the existing system of recruitment through jobbers. Only the managers and heads of departments are now authorised to re-

cruit labour and any official accepting bribes is liable to instant dismissal.

The want of a stable labour force at any particular centre, coupled with the appalling ignorance and home-loving nature of the average Indian worker, however, makes it sometimes necessary to send out contractors, *Mukadams* or *Aratis* to overcome the peasant's innate conservatism and to keep up the supply of labour to meet all the demands of urban industry. These contractors often indulge in fraud and misrepresentation by painting a rosy picture of the future that awaits the peasant in the town. The lure of high money wages and the various amusements of city life easily entrap the indigent farmer. Not infrequently advances of money are paid to the recruits to get over their pecuniary difficulties and enable them to reach their prospective seat of employment. These labourers generally work under the very contractor who recruits them and who takes good care to realise his advance money with exorbitant interest. In the manganese and limestone mines of Central Provinces, in the Tea Plantations of Assam and Northern India, in the coal fields and iron ore mines of Bihar and Bengal, and in Burma, most of the unskilled labour is recruited through such contractors or *Aratis.* In all these places labour is bought by the employers like a commodity from the contractors at a certain rate per head of labour supplied.

The Badli System.

The existence of the jobbers or contractors is also an important cause of the *Badli* system which is rampant in almost every factory and against which the millowners complain so bitterly. It works as follows. A labourer takes leave or is put off duty or is dismissed and somebody else is appointed in his place. This substitute is called the *Badliwala*. The jobbers are interested in having as many such changes as possible because each change brings in a certain amount of commission to them. Thus the poor labourer loses the continuity of his service and the mills

the services of a trained employee merely on account of the existence of a vicious system of recruitment. Frequent complaints of wrongful dismissals were brought to my notice by the labourers during my connection with the Mazdoor Sabha at Cawnpore. In some cases the labourers were reinstated by the authorities on proper representation by the Secretary of the Mazdoor Sabha, but the mill managers generally show great reluctance in interfering with the discretion of their subordinates. Such frequent dismissals also account to some extent for the high turnover of labour in Indian factories. It has been estimated that the turnover of labour in the best of mills in India is as high as 30 to 40 per cent per annum.

Dismissals.

Ordinarily the labourer does not know the cause of his dismissal. In rare cases when he makes a representation to the mill authorities directly or through the Union, and the manager takes notice of the same, the causes are disclosed in correspondence. Absence without leave, inefficiency, misbehaviour, and irregularity are the chief pretexts which the jobbers employ whenever they want to dismiss a person. Reduction in staff, damage to machinery or articles, and quarrels are the other circumstances in which a man may lose his job. Frequently a labourer falls ill and is unable to secure leave in time, which may not be granted until he produces a regular medical certificate from the mill doctor or some other qualified person, neither of whom are accessible to the poor labourer at his house. Absence from work under such circumstances may involve dismissal. Not infrequently a dismissal implies also forfeiture of wages due.

Closely connected with the question of dismissals is the question of fines. A labourer may be fined for any fault for which he is liable to dismissal if a lenient view is taken of his action. There are generally no limits in the extent or amount of fines which may be levied upon a person at a time. Frequently such fines

eat up about fifty per cent of a man's income. Rarely does a labourer receive his wages without any such deductions. In the case of workers in the cotton and the other textile factories this evil is most pronounced. Weavers are charged full market prices of whole pieces of cloth if they are even slightly spoiled. No allowance is generally made for defective machinery or bad raw material in such cases. Absence without leave may entail upon the labourer loss of wages for the day, plus a fine, and in some cases he may also be put off from duty for a few days as an additional punishment. Late arrival, in the morning when the work is being started or in the noon after recess, counts as total absence for the day and may involve a fine in addition. Besides, ingenious devices are often employed by the management in assessing the fines. It is needless to say that such an elaborate system of fines inflicts a very heavy burden on the poor resources of the operatives. Nor is the amount so realised always spent on the welfare of the workers. Many mills treat the amount merely as a kind of reduction in the wages bill.

Enforced Idleness.

Still another issue which visibly affects the labourers' income is enforced idleness. In the Jute industry in Bengal as a rule, in the cotton and woollen industries in Cawnpore, and to a smaller extent in Nagpur, Ahmedabad and Bombay also, the mill managers employ a much larger number of operatives than they can provide work for. The managers, however, keep the labourers on promises and distribute the work among workmen by turns or keep the mills closed on certain days. In the Jute industry the practice is to keep the mills closed on Fridays and Saturdays, when no wages are paid. In Cawnpore, as in Ahmedabad and Bombay, the custom is to enforce leave without pay. The weavers, for example, when they complete a piece, are sent home with instructions to call the next day and every day after that until looms and materials are assigned to them. Absence on any day

when looms may be available for them may involve dismissal or further unemployment for a week or a fortnight. In slack seasons a weaver hardly gets work for ten or twelve days during the month and rarely for more than twenty days in the busiest times The poor man can neither engage himself in any other work during this period nor remain at home for fear of dismissal in case he is called and is found absent. At a time of acute trade depression an arrangement by which every worker gets some work may be preferred to the one involving absolute unemployment to some and full employment to others. But such arrangements must be unreservedly condemned under normal conditions.

Payment of Wages.

The above, however, do not complete the debit side of a labourer's balance sheet. As a rule the workmen are paid every fortnight but the first month's wages are generally kept in arrears. In some factories, however, only one fortnight's wages are treated as arrears. Under no circumstances does the labourer receive anything before the close of the first month's service. Thereafter delays of two, three or more days in the disbursement of wages are not unusual. When wages are paid according to the piece wage system such delays are even longer and sometimes extend to a week or even more. In Bombay wages are paid monthly and the payment is sometimes delayed by ten to fifteen days after they are due. All wages are generally paid through the jobbers who make the customary deductions for *Dasturi*, etc., before each payment.

Indebtedness.

The labourer accordingly begins his life in the city with a heavy debt. In the first instance he borrows money to pay the jobber's commission. Then he borrows for his maintenance during the first month or until he gets his wages. Every suspension or leave adds to his debt. Fines and enforced idleness also mul-

tiply his liabilities. His necessaries of life he generally buys on credit from the local *bania* who charges one anna to two annas per rupee per month (75 to 150 per cent) as interest. The rest he borrows from the Panjabi or the Marwari moneylender who carries on his vicious trade amongst them. On this the labourer has to pay equally high and sometimes even higher interest. Thus it is not unusual for ordinary workmen to pay 10 to 15 per cent or even more of their income to the moneylender for payment of interest. Such indebtedness is normal and hardly any labourer is free from it. His wages are barely enough for his expenses so that the debt continues without any abatement.

Wages.

Coming to the wages earned by labour, wide differences are noticeable from industry to industry and from locality to locality. The diversity in the supply of labour, cost of living, and social stratification also tend to perpetuate these differences. Ignorance and want of sufficient mobility further accentuate them. The unskilled labourers or coolies who form the great majority of workmen in most industries, may be treated as a class by themselves. They are the most hard-worked lot and get barely enough for a miserable existence. During the period of industrial boom following the Great European War a number of increments were granted to labour of all grades by employers in order to meet the increased cost of living as also to keep the labour force contented at a time of intense industrial activity. These increments the labourers have fought bitterly to retain during the last few years when prices have shown a marked downward tendency.

The Cotton Industry.

In the Cotton industry, which is by far the most important industry of India, wages are as divergent as are the centres of the industry. In Bombay City wages are highest but these are

counter-balanced by an extremely high cost of living. Ahmedabad closely follows suit both in point of the rates of wages and the cost of living. In Sholapur, Nagpur, Cawnpore, Madras, and other centres of the industry, wages are comparatively low. In Bombay the unskilled male labourers earn between Rs. 20 to Rs. 30 per month—Rs. 22 and Rs. 24 being the most popular rates, while the skilled labourers earn from Rs. 30 to Rs. 80. In Ahmedabad wages are paid fortnightly. The unskilled workers get Rs. 9 to Rs. 11 and the superior classes up to Rs. 30 per fortnight. In Sholapur, Cawnpore and Nagpur the ordinary coolie or doffer does not earn more than Rs. 14 or Rs. 16 per month while in Madras he earns still less.

Women are generally engaged in the reeling department or as sweepers, pickers of waste, etc. In Bombay and Ahmedabad they earn Rs. 14 to Rs. 25 per month but in other centres they hardly get Rs. 8 to 12 and in Madras Rs. 6 to 8 only.

The Jute Industry.

Wages are very low in the Bengal Jute industry. The ordinary cleaner or rover does not get more than Rs. 10 to Rs. 12 while skilled labourers like weavers, masons and smiths receive Rs. 25 to Rs. 30 only per month. Coupled with these low wages the workers in this industry generally suffer from an acute form of unemployment and under-employment, which has already been referred.

Coalfields.

Most of the labour employed in the coal-fields and iron mines belongs to the aboriginal tribes and works by families. A few foremen, mates, or other skilled workmen belonging to up-country are, however, employed for supervision of—for discharging some technical duties. The wages of the unskilled aboriginal labour in the Bengal and Bihar coal-fields vary from annas 7 to 9 per day for a month of about twenty days or from Rs. 9 to Rs. 12 per

mensem. The women earn from annas 6 to 8 per day or Rs. 7/8 to Rs. 10 per month. The other labourers get-/12/- to -/14/- per day or Rs. 15 to Rs. 20 per month. More often than not these wages are calculated by the piece-wage system and are fixed per hundredweight of coal cut or carried.

The Plantations.

Wages in the tea gardens of Assam are also very low. Here also labour is generally performed by families and is paid by piece. An average family consisting of an adult male worker, his wife, three children and a dependent earn Rs. 20 to Rs. 30 per month. Open air life and a homely environment coupled with a low cost of living are, however, the relieving features of the otherwise sweated labour of the plantations.

The Casual Labourer.

Conditions in other industries are not materially different, while the large class of casual or floating labour in the bigger cities as well as in the country towns is paid even lower rates. Hosts of such labourers wander about without any kind of employment both in times of industrial depression as well as during periods of famine and scarcity. Even in normal times they suffer from acute under-employment.

The Agricultural Labourer.

The agricultural labourer is no better off. There is hardly any scope for his services on the land because the agricultural holdings are so small that even the farmers find insufficient occupation for themselves and the other members of their family. Nor are there any rural industries now left in the villages which could provide some engagement to our landless labourers. Thus whether we go to the villages or to our industrial centres we find nothing cheaper than human life, nothing dearer than good living and sanitary conditions.

Minimum Wages Machinery.

At the Eleventh Session of the International Labour Conference held at Geneva in 1928 a draft convention and recommendation were adopted for the creation of a minimum wage-fixing machinery in trades in which the labourers are not sufficiently organised effectively to regulate their wages, or trades in which the wages are particularly low. The Government of India instituted inquiries through the Provincial Governments in this behalf in 1928, but no action has yet been taken pending the report of the Royal Commission on Labour. The problem is, however, beset with almost insurmountable difficulties. The diversity in the cost of living from province to province, the appalling illiteracy, and the want of any organisation worth the name amongst the lower grades of labour are some of the chief obstacles. The difficulty of successfully operating any such laws in the country is another impediment which cannot be easily dismissed.

Conclusion.

The task of labour welfare is fraught with grave dangers and difficulties. The introduction of methods and practices applicable to countries of an advanced civilization and industrial growth may lead to more harm than good. Labour improvement is necessarily a slow process. Education and organisation must be assiduously pushed forward along with social readjustments to effect any lasting benefits. Legislation, though very helpful and desirable in alleviating obvious hardships is necessarily a palliative and cannot be relied upon for all times. The future lies in the rise and development of a sound and living trade unionism, embracing various grades of labour, combining within it both vigour and statesmanship, and free alike from personal aggrandisement and political influences.

TRADE DISPUTES IN INDIA

BY

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The Industrial Revolution which is now in progress in India has brought along with it many vital social and economic changes and difficulties. The Growth of Organized Industries has in its train brought to the forefront the labour question, which until recently received little attention. During the process of industrialization of a country, it is essential that proper steps should be taken to see that every one connected with the industry receives proper consideration or else irreparable harm would be done. It is useless for the employers to say that Industries should be left alone and Government should not interfere and burden the industries, or argue that industries are being just started in India and so no restriction should be laid for the present. History points clearly to the dangerous consequences of such a policy. We know, even in England, after the Industrial Revolution, children were employed to do dangerous work, women were asked to work underground, and the hardships and sufferings of the working classes were, in consequence, most appalling. All this was done at a period when the State did not interfere. Dr. Marshall said that "the British Factory Acts are a standing disgrace to the country." By this remark Dr. Marshall did not mean that those acts are not justifiable. "The disgrace in Dr. Marshall's view, lay not in the character of the Factory Acts, but in the necessity for their existence. The source of them was the fact that some employers in England neglected their clear duty towards their work-people to such a degree as to render such acts necessary. The object of Dr. Marshall's phrase was not to condemn any

existing law, but to hold up and emphasize a binding obligation of personal honour, which some businessmen have so far failed to recognize."

Therefore, if industrial evil is not checked at the very beginning, it may develop in such a way, that there will be constant trouble not only in industry, but in the nation as a whole.

Recent events in India are very discouraging indeed for there have been numerous industrial disputes accompanied by rioting, bloodshed and loss of life. Disputes are sometimes prolonged and last many months, especially in the textile industries, bringing much misery to the workers themselves and also retarding the progress especially of the cotton industry, which is one of the important industries of India. It should be noted that strikes and lock-outs are only symptoms of trouble, and that there is a danger of attaching too much importance to the symptoms and too little to what lies below.

It can be safely said that up till very recently, in India, labour problems were not seriously considered at all and that employers and employees were left alone to run the industries. The Government of India as far as possible followed the policy of non-intervention and practically very little attention was paid to collection of statistics in relation to industries and labour.

The same thing can be said about statistics in connection with industrial disputes in India.

Strikes and lock-outs have often been described as industrial warfare and like war it affects not only the parties concerned but also the whole community and the whole organization of trade.

Strikes and lock-outs are not new things, for, in all industrial communities they are frequent and common occurrences. Class hatred has been helped, sometimes by the careless action of employers who could avoid troubles by looking at industrial problems broadly and by attempting to understand them better, and sometimes by the action of labour leaders who unnecessarily preach war and discontent.

Industrial discontent among the workers and the constant friction which results from it, thwarts the progress of the country and brings calamity not only to workers and employers but to the whole community. Therefore it is essential that definite steps should be taken to create harmonious relationship. The Public should interest themselves and see whether justice is meted out. Only when a great strike or lock-out occurs, is public attention aroused and this lasts while the strike is in progress but when it is over ceases completely. This is a wrong attitude. The Public should be the chief judge and act as the final arbitrator.

"A strike is a suspension of work by the employed, having for its object the enforcement of better terms of labour or resistance of some defined change in the existing conditions of labour." "Lockout is the action of an employer who notifies to his work-people that on a certain date all existing contracts of service will terminate." Thus it is essential that, when legislation to avert industrial warfare is proposed, both sides of the question should be taken into consideration. Lock-outs as well as strikes lead to disaster, and involve the whole community indirectly. It matters little for the community, whether it is a lock-out or a strike, for the consequences are the same. Therefore it is essential to bear in mind that the same kind of restrictions or remedies should apply to lock-outs as to strikes.

Most industrial problems have too often been approached with varied feelings and a rational analysis of them has been avoided. Extreme partisans never care to analyse the realities of the situation; but in order to bring harmony into industry, it is essential to replace passion by reason and commonsense. If this is done and things are moulded to secure the welfare of the majority of individuals, there would be mutual confidence and good will.

Some people regard the important causes of industrial conflict as the natural and inevitable outcome of an unjust individualist industrial system and believe that the only way to put an end to the trouble is to change the system completely.

From the figures that I have been able to collect and after a close analysis of them, one has to come to the conclusion that the average worker neither thinks nor cares about system. The ordinary workman does not want a strike for a theory or a law, but he will strike for economic reasons. When he is hard pressed and his wages are low and he is starving and suffering and when he realises that he has no opportunity for improvement, then he is easily led by what others say.

Justice and fair-play is all that the majority of workmen would wish to achieve, and if they obtain these there would be very little trouble in the labour world.

If we study figures and facts we can see that the main causes of industrial conflict are stereotyped. The chief among them are wages and their adjustment—and thus the question of remuneration and its adequate adjustment is the vital thing in almost all disputes and no amount of talk on industrial peace will solve the problem of industrial conflict unless and until a proper solution of this problem is frankly and sympathetically dealt with. The workmen when they see signs of prosperity in others and no corresponding improvement in their own, feel that others are experiencing enjoyment at his expense and hard labour and feel that he is unjustly treated.

The wage problem has become more acute since 1918. Before the war rates of wages were relatively stable and if there was any change it was only gradual. But since 1918, the problem has become a difficult one owing to extensive economic changes. Thus since the war, this question has led to troubles and, owing to the want of a basis on which wages could be settled, to endless disagreements. If there is no agreed principle of wage determination, there is certain to be trouble and " in the end wages are determined not by reference to equity or common good but by the strong hand."

Experience in various industries and in various countries would seem to indicate that the determination of wages by reference to

principles previously agreed to by both workers and employers is a method of promoting industrial peace and has achieved some success. The only point is that the actual framing of practical and scientific principles for the determination of wages is a difficult technical problem. The principle even if scientific may not be accepted and therefore the great problem is to induce both sides to accept such principles.

For example, in Australia, employers and workers accept the principles of the "living wage." This wage in terms of actual money is declared from time to time by some official Commission. Though their method of arriving at the amount estimated as necessary to meet the needs of the "average" family is by a very rough and ready calculation, yet both sides accept it which is the all-important point.

It seems to a certain extent to be successful; for stoppages of work on account of wage questions were not so many as in other countries.[1]

But unfortunately no such "living wage" exists in India and thus "the machinery for considering wage changes is imperfect."

So the problem of the adjustment of wages is extraordinarily difficult and as Professor Henry Clay says, "the worst disservice that anyone can perform to industry to-day is to suggest that wage problems are simple or susceptible to any single or simple solution."

This we can see from the fact, that since 1918, there have been frequent industrial disputes in India on this question.

As in this country and throughout the industrial world, the chief causes of industrial disputes in India are wage questions and their adjustment. This has been the most important cause of all industrial disputes, especially since the war. The wages of

1 Australia 1913—1923, 35 per cent. New Zealand 1906—1923, 37 per cent.

all classes of labourers in India are low and especially after the war owing to the rise in the cost of living, the condition of the workers has become worse and their sufferings have increased. Thus the workers found it impossible for them to obtain the bare necessities of life. This led them to go continually on strike, as they thought that they would better their position by such methods.

Thus, according to the statistics available, the majority of the disputes in India have arisen from the demand for higher wages. In Bengal, all the 48 strikes that occurred in October and November 1920, arose out of a demand for higher wages; of the 559 strikes and lock-outs in 1921 and the first half of 1922 all over the country, 245 were due to the question of wages and 83 to a question of bonus, and out of 134 disputes in 1925, 71 arose on account of wage questions. The same facts can be stated of the year 1926, when out of a total of 128 disputes 60 arose from a demand of higher wages. In 1927, 61 disputes out of 129 were due to questions of wages. So the wage question is one of the important causes of industrial disputes in India and there are tendencies which show that many disputes will occur in the future if something is not done to regulate wages in the factories in India. There are as yet no such things as Trade Boards, or the minimum wage in India and since all wages are low, there is a definite tendency to strike often in order to get better wages. The same tendencies, as has been seen, have occurred in almost all industrial countries and there is no doubt that they will repeat themselves in India if an adequate increase of wages is not given. The employers in India should no longer ignore this fact and hence should change their methods and face the aspirations of labour. The employers in India besides have yet to learn the disastrous consequence of employing half-starved and weak workers who will be unable to do their work efficiently.

As the Trade Unions are slowly being organized, the employees will naturally with their help demand better standards of living

and hence an increase in wages. Moreover, when the workers obtain better education and the present illiterate worker is replaced by one more fully equipped mentally, this question will form the most important cause of industrial disputes in India and hence the employers should face this problem immediately. Almost all recent strikes in India have been due to wage questions, and labour in all countries is vitally interested in nothing so much as in getting a living wage and the Indian labourers too are crying out for the same. So in India also the fixing of a minimum wage and the adjustment of wages in all industries should be immediately faced. Otherwise the present tendency clearly shows that there will be tremendous and disastrous industrial disputes. All interested in the industrial development of India should realize that constant stoppages of work on account of strikes and lock-outs will thwart progress and bring ruin to industry and hence some immediate solution should be found.

Besides this important cause there are other causes on account of which stoppages of work have taken place. The most important of these were better housing and the demand for shorter hours. But it should be again noted that the workers have no proper organization and so there is no body or authority who could formulate the grievances and thus there were a number of strikes without any proper demand. It is indeed very difficult to negotiate with the Indian workers without "effective organization to formulate the claims of the operatives and to secure respect for any settlement which may be made." On account of this, many sporadic and short strikes occur on trivial grounds and sometimes extravagant claims are put forth. The workers and sometimes the leaders themselves do not know where they stand, and thus in a majority of cases the workers are unsuccessful in getting their demands. Sometimes it happens, that after the strike grievances are formulated other "claims are put forward after the strike has begun." According to the statistics available, under the heading personal and others, more than 30 per cent of strikes have

been recorded. The only remedy to avert sporadic strikes and strikes due to trivial causes, is to encourage labour to organise. Without such organization it has been found impossible elsewhere to stop such strikes. But strikes occurred when the Trade Unions movement was started in India and will occur in the future, if employers ignore the valuable lessons learnt from the other countries. As has been said the employers should straightway recognise Trade Unions whenever and wherever they are formed. A number of strikes in recent years have occurred in India on account of employers stubbornly refusing to recognise Trade Unions and to negotiate with their leaders. In several cases, strikes have also occurred on account of employers refusing to take back the prominent workers who organised them or addressed meetings.

It should be admitted that there is some difficulty in employers recognising the Trade Unions, as the majority of the leaders of the labour movement in India are politicians. There has been a fear in India that political leaders utilize labour disputes for their own purposes. It should be realized in Great Britain at the corresponding stage same thing occurred when outsiders like Robert Owen, Francis Peace, and later Kingsley, Ludlow and Frederic Harrison played their parts. So employers in India should also realize that the workers are so ignorant that it would be impossible for them to organise themselves without outside help, and so they also should adjust themselves and as far as possible recognise the Unions. By doing so, they will give an opportunity for workers to train themselves and thus in the course of a few years to become leaders of their Union.

Every attempt should be made to organise the workers and unless and until this is done it will be impossible for the workers to improve their condition or to bring to an end the great number of unnecessary and sporadic strikes; for the worker at present is unable to better his position and as the Collector of Bombay remarks, "if the mill-owners desire to increase the hours, the

operatives have no real power to prevent them. Their power of combination is as yet exceedingly limited; a large proportion will always continue to prefer to get as high wages as they can, regardless of their own welfare in the long run."

Thus the "history of organized labour in India is full of instances to show that, while the operatives fully understand the machinery of local strikes and have repeatedly forced employers to comply with their demands in isolated cases, they have been unable to combine over any large area with the object of securing a common end by concerted action."

Thus the labour organizations in India have not yet come to business methods, and the few Trade Unions that are existing today "possess no clear-cut features or well-defined duties; most of them have no permanent offices or staffs; and the men themselves are lukewarm in their loyalty to their Union, demurring to Union discipline and to Union contributions."

Industrial disputes occur in India for various other causes, such as the arbitrary dismissal of employees, and the ill-treatment of workers by foremen and managers. Sometimes industrial workers in India are at the mercy of foremen. The foreman, generally an Indian or Anglo-Indian, takes advantage of the illiterate worker and, if he displeases him in the slightest degree, dismisses him. The worker not being conversant with rules and regulations, and being illiterate very rarely appeals, but thinking that the foreman is all-powerful and fearing dismissal, too often goes out of his way to please him.

Such a system is undoubtedly open to grave abuse, and the employers should endeavour to establish workshop committees to eradicate this evil. Therefore strikes in India have peculiar characteristics and since there are no proper organizations of labour and since workers are illiterate, the problem of industrial disputes has peculiar difficulties and as the report (The Industrial Dispute Committee, appointed by the Government of Bombay on 30th July, 1921) rightly says, "the evolution of any means of

preventing or adjusting strikes and trade disputes in such a floating and illiterate body, lacking any homogeneity, is exceedingly difficult."

Space does not permit me here to suggest and discuss various methods to avert trade disputes but it suffices to say here that every effort should be made to encourage voluntary conciliation machinery in each industry for the settlement of disputes and also attempts should be made to use the Court of Inquiry (Trade Disputes Act, 1929) before a strike or lock-out occurs. The best way to settle industrial disputes is for employers and employees to establish machinery for voluntary agreement and this would work far more smoothly than elsewhere, for there is, I am sure, a desire among the majority of labour leaders that Indian industries should develop and prosper.

The employers should remember the wise words uttered by Lord Chelmsford in 1920 when he pleaded the " necessity for the sympathetic consideration of Labour " in India. " It will be a tragic and irreparable disaster if India is forced to repeat the long history of Industrial strife in England."

It is generally now recognised that there can be no permanent cure for industrial troubles, until factory conditions are " brought into line with the wishes and aspirations of the workers."

Mr. Seabohm Rowntree, in his article on " Labour and Capital after the War " says that labour must be regarded " rather as a partner than as servant," that they should co-operate with the management " practically on equal terms " and that their advice should be sought " in determining the conditions of work in any industry."

In Great Britain, employers have changed a great deal, especially after the War in their attitude towards the workers. The establishment of elaborate machinery such as National Councils, District Councils, Workshop Committees, Profit-Sharing schemes and various other schemes all clearly show the changed attitude and the recognition of labour as partner and not as servant.

Indian employers have not benefited from the lessons which foreign countries offer, for as Prof. Wadia says, " whilst employers in the West are awakening to a sense of their social responsibilities and are being forced to recognise that the labour employed under their charge has a first claim on the product, the Indian Capitalists and employers, whether foreigners or belonging to the land, have yet to learn the value of a more humane treatment of workers."

In short, what India needs is a radical change in her economic ideals and a reorganization of the present system under which industrial work is carried on. The present status of Indian workmen should be changed gradually or else there is bound to be discontent and thus industrial disputes in the future will increase.

It is only by adopting methods to ameliorate labour conditions, and by a sympathetic policy, and by accepting labour as partner, that Indian industries will work smoothly and go " abreast of the most advanced countries."

This infusion of a new spirit in industry is essential for orderly progress and the solution rests jointly with Labour, Employers and the State.

THE THEORY OF DISTRIBUTION

BY

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The time has come when even in India the custodians of the science of Economics should attempt not merely at teaching the subject in the Colleges and Universities but at developing the analytical outlook in themselves and among their pupils. It is a matter of great regret that despite great popularity of Economics, very few of us can systematically think on the economic problems of the day. Although every layman has some opinion of his own on all economic matters, yet very often even those who betray a deplorable lack of systematic thinking are supposed to have received a good grounding in Economics. This is mainly due to the fact that the teaching of theory and principles of the Science is very shabbily done. Except in very rare cases our colleges seem to produce, not thinking men, but cramming parrots or calculating machines in human disguise. The whole object of our college education is destroyed.

The result of the present method of teaching Economics is to make the student able to repeat certain economic expressions and by this means to ensure his success in the examination. Some of my own pupils who have passed their M.A. Examination in Economics with the help of books alone and without paying any attention to my lectures have afterwards confessed to me that their ideas about the most elementary economic problems are very vague. And this is quite natural too. In the beginning these people have been taught some simple things about Economics in a simple way and their minds were not given enough exercises in the matter

in hand. Take for instance the theory of Distribution as it is generally taught in ordinary easy text-books which our teachers are so afraid to criticise. The tendency of regarding the printed word as the gospel truth even in scientific matters has done an incalculable harm to the teachers and the taught alike.

The text-book writers[1] give great prominence and space to the fourfold division of the subject corresponding to the fourfold division of the department of Production. It is said that there are four factors of Production, viz., Land, Labour, Capital and Organisation. And the national income is also therefore divided into four similar and corresponding parts.

Thus the income of Land is called Rent.

,,	,,	Labour	,,	Wages.
,,	,,	Capital	,,	Interest.
,,	,,	Organisation	,,	Profits.

Some of these popular and easy text-book writers[2] feel some misgivings about the fourth factor of production, viz., Organisation and therefore hesitate to call Profits as the income of that factor. Under modern corporate production on a large scale, organisers have emerged as a separate class of specialists and they get the reward for their work in much the same way as the other employees do in a big concern. And unless a new division between manual and other workers is to be made, there is no line of distinction between the kind of income that organisers receive on the one hand and the income that other labourers get on the other. This distinction between manual labourers and others, however, will be altogether unwarranted. Economics already suffers from a cropful plethora of hairsplitting distinctions of terms which serve no useful purpose for the building up of the

1 See text-books written by Penson, Moreland, Clay and others. This is the arrangement almost in every text-book on Economics written on the lines laid down by eminent writers like Marshall.

2 See Penson's book above referred to.

theory of the science as a whole except that it provides a pastime for the carefree economists to revel in. Of this class are the absurd distinctions like circulating capital, fixed capital and productive capital (and why not, also *consumptive capital*).

For the purpose of laying down broad general principles of the science, therefore, we must put all kinds of work manual or mental in one single class. We may go further and say that even the preacher of religious sermons is to be classed along with every other kind of workers. Similarly the income that even the most exalted person gets from his office, e.g., the Viceroy or the Chief Justice of a High Court is as much an income from work as the income that the lowliest of labourers say a scavenger gets from his occupation. Even the science of wealth must not distinguish and classify men according to their wealth; at least for the purpose of building up the pure and abstract theory. Of course for solving practical problems such as that of income-tax, we have to adopt a different classification based on the size of possessions which is in fact not a matter of principle but one of accident.

Profits, therefore, so far as they are a reward for organising work do not differ from wages and should be so classified. Some writers likely Penson[3] declare that factors of Production are not four but five. The fifth is said to be Enterprise. Profits are then said to be the reward for Enterprise. Others[4] prefer to call it the reward for risk-bearing. Now it may be asked what kind of risk is borne by those who appropriate profits to themselves? Their answer is that they risk their capital in the enterprise. It is said that labourers get their wages and therefore bear no risk. Similarly the landlords and capitalists get rent and interest respectively and bear no risk. It is only the entrepreneur who bears risk and he therefore gets profits. But the actual facts of life we live tell a different tale.

[3] In the same text-book as referred heretofore.

[4] Taussig, Vol. II, pp. 164—66.

Risk-bearing in fact is too wide a basis to be adopted for making Profits as a distinct class of income. As Fisher points out in his "Nature of Capital and Income,"[5] risk is due to uncertainty. And uncertainty pervades in all human doings. There is no kind of income which is entirely free from the risk of uncertainty. Is it really maintained by anybody that labourers do not incur any risk? The possibility of being sacked and then having to face starvation is certainly a much greater risk than the risk that the owners of capital really bear. The existence of institutions like the Labour Exchanges, Insurance against Unemployment and other kinds of labourers' insurance under the patronage of Governments is a clear proof of the recognition of risks borne by labourers.

Moreover can anybody deny that risk-bearing is just another kind of mental work only and here again its reward is in no sense different from wages? It has already been said that all income from work whether mental or manual, must be treated alike in a science. But even if we have to distinguish manual work from mental, we have no justification whatsoever for singling out one kind of mental work, viz., risk-bearing from others of the same kind, e.g., that of a judge, for making a new class of it by itself. As regards profits, we come, therefore, to the conclusion that in so far as they are the income of risk-bearing they are not different from any other kind of income because every kind of income involves an element of risk. In some incomes this element is greater and in some others smaller, but it is present everywhere all the same.

But the advocates[6] of treating Profits as a separate class by themselves say that entrepreneurs get Profits not only for risk-bearing but also for waiting for the fructification of the investment of their capital. And in the third place they get Profits for putting in their own personal labour in the venture. The above

5 Pp. 265—69.

6 Clay, pp. 335—38; and Henderson, "Supply and Demand," pp. 117-18.

analysis of Profits into its so-called three constituent elements is really very shallow. On the basis of this analysis it will be apparent that there is no fundamental difference between Profits and Interest, for Interest is also analysed into exactly corresponding three elements, viz., risk, waiting and management (of loans, etc.). Generally profits are calculated on the basis of capital in the form of percentage. So is Interest. Then, pray, tell me what is the difference between the two. Profits are generally supposed to represent a higher percentage than Interest. In fact it is not always necessarily so. And the rate of Interest also is higher in risky investments than in those where there is less risk. There is therefore a difference between Interest and Profits neither in respect of their constituent factors nor in the method of their calculation, etc. And hence in so far as Profits are an income for waiting they are not different from Interest. And in so far as they are the reward for management or risk-bearing they are not different from wages.

Some people take shelter under the fact of proprietorship. They say that Profits represent the surplus of income over and above what the proprietors of a concern would have obtained as interest if they had lent their capital to somebody else instead of employing it in their own business. But on analysis it can be shown that even this also is a distinction without a difference. The development of the Joint Stock form of business and the diversification of shares into ordinary, preference, etc., has wiped out all such ground for separating profits from interest. In what way does this income of proprietorship of a concern differ from the income of proprietorship of other kinds of property? Does not a moneylender who gets his income which is called Interest own his business? There is in fact no line of demarcation pointing out where Interest ends and Profit begins.

Let us now see whether there is any real difference between Rent and Interest. Rent is said to be the reward for letting out land for use to others whereas Interest is similarly the reward

for letting out capital. We have seen that gross Interest involves a reward for waiting, reward for risk-bearing and reward for management of loans. Similarly Rent may be shown to be the reward for these very three elements. On this basis therefore there is no justification for distinguishing between Rent and Interest.

Roughly speaking there is an element of wages even in the other kind or kinds of income, i.e., income from various kinds of property; and as Clay points out there is an element of rent (i.e., of income from property) even in wages. But probably it will be said that the existence of a small element of the other kind of income in wages, or the existence of a small element of wages in the income from all kinds of property does not matter. It is the dominating element by whose name we call the different kinds of income. Thus we call a particular kind of income as Interest when the element of waiting is prominent. Very puzzling questions will then arise. What about the hire of a Tonga? Is it predominantly an income from work of the driver who is also the owner, or income from his capital? Is it therefore Interest or wages? What about the " rent " of a big house, the value of land on which it is built having gone up because of the capital invested in it and in the surrounding plots?

The traditional economists[7] do not however differentiate between Rent and Interest on the basis of their respective constituents. They say that land and capital are two distinct factors of production and hence income yielded by either should be treated as different from that yielded by the other. But let us examine how property in Land is different from property in Capital.

Formerly it used to be said that Land is different from Capital inasmuch as Land is a gift of nature and Capital is made by man. But now this kind of argument is not much made use of. Marshall pointed out that man does not produce anything new. He only shapes and reshapes matter and takes pride in calling

7 Marshall, Principles, pp. 609—28.

this process as Production. From this it is clear that by no means nature plays an inconsiderable part in the production of capital. Every capital good is very largely produced first by nature and then only after that by man. It is the fact of possession of a gift of nature which turns a natural object into capital. This applies to land in the ordinary sense as well as to a piece of bamboo produced on it. Land, as soon as some labour has been spent in possessing, preserving or improving it does not remain a pure gift of nature. Similarly, however much human labour may have been spent on a piece of bamboo in making a flute out of it, the part which nature has played in making it can never be negligible. This reasoning will wipe out the distinction between land and capital.

It may be reminded here that "Land" in Economics does not mean only the ordinary land but all gifts of nature. But apart from the fact that the above argument applies to all gifts of nature, I may add that this widening of the denotation of the term "Land" ends in the very first chapters in the books on Economics. In the whole of the remaining parts of these treatises only the problems of ordinary land are discussed and Land simply means ordinary land.

Then again it is said[8] that Land is distinguished from Capital on the basis that in the creation of Land nature plays a major part and in the creation of Capital that major part is played by man. But this argument also leads us nowhere. There is no measure to judge whether in the creation of any economic good the part played by nature is more important or just the otherwise. Can anybody declare what percentage should be attributed to nature and what to man in the formation of, say, a flute out of a piece of bamboo?

But the modern line of distinction between Land and Capital[9] is based on the limitation of supply. People say that whereas

8 Marshall, Principles, pp. 144—49.

9 Henderson, Supply and Demand, pp. 84-5.

the supply of land is absolutely limited the supply of capital can be increased or decreased at will. As a matter of fact both these statements are very far from being true. Every one of us knows that land, in the wider sense i.e., nature's bounty, is limitless. Even of the ordinary land, only in a very restricted sense can it be said that its supply is limited, and that too not absolutely but relatively at any one particular point of time or for comparatively short periods. Reclamation of marshy land, bringing into use of barren land by the discovery of suitable manures, increasing the facility of situation by means of rapid communication, emergence of new islands in the high seas, etc., are all instances of how even the supply of ordinary land may be increased in course of time.

Similarly it is wrong to say that the supply of capital can be increased at will. There are kinds of capital, the supply of which cannot be increased at all, e.g., the painting of the Masterhands like those of Raja Ravi Varma and the marble-carving of statues of Michael Angelo, etc. These objects are never treated as "Land" on the basis of the absolute limitation of their supply. Similarly there are some kinds of capital the supply of which is limited for considerable lengths of time, e.g., the supply of steamships and all other big capital goods like bridges, railways, etc. Can this temporary or permanent limitation of supply of these capital goods mislead any one to treat them as "Land"?

Even the great Economist Marshall felt the unreasonableness of the present classification of income. But instead of applying his analysis to show the resemblance between the two kinds of income, viz., Rent and Interest, he invented a fifth class and called it quasi-rent. Land as Prof. Cannan has pointed out is no longer a free gift of nature in any of the modern communities of the world. All that you can say is that it is a prominent kind of property. But the mere fact of prominence will entitle it to be regarded as a separate class by itself no more than the fat salaries of some high officials will entitle the holders to be treated

differently from other workers for the purposes of building the theory of the Science. As for the method of calculation it is a pure accident as Fisher points out that the income of land is calculated as per acre while that of other kind of capital as per cent. This difference is based on popular usage which is as unscientific as was the popular belief that our earth was flat and not round like a ball except perhaps at both ends. And it is certainly not the business of a science to perpetuate wrong popular usages as scientific truths. And apart from common parlance, even the common practice does not recognise this difference. If a business goes under liquidation, the land of the owner of that business is not set apart by the liquidators. It is treated exactly like his other capital assets. Similarly if a businessman buys out the premises of his business with Rs. 5,000 and stocks goods worth another sum of Rs. 10,000, his capital in business will not be treated by anybody as only Rs. 10,000. His profits will be calculated as so much per cent on Rs. 15,000, i e., including the capital invested both in land and stock of goods.

All this analysis leads us to the conclusion that the distinction between Rent, Interest and Profits is unreal, and that there are only two real divisions of income namely Income from work and Income from property. This is in perfect conformity with the requirements of the times. All economic conflict is really between workers and owners and it will greatly conduce to the clarity of ideas if we bear that fact in mind from the very start of our study. It is useless to treat nature as a separate factor of Production. It does produce but it does not demand an "economic rent." There is no conflict among men in respect of fighting against nature and wrestling its secrets which it seems to yield sometimes so niggardly and at others so liberally. Consequently nature or its gifts do not provide any good basis for putting income-receivers into different classes.

Even as it is, the subject of Distribution is treated at present in a most unpractical way. The so-called theories of Wages,

Rent, Interest and Profits are nothing but a mere amplification of the prominent instances of the principles of value.[10] As Prof. Cannan points out, the more important questions are whether in any nation or a particular industry the right proportion of income goes to labour. Or what share of the income which now goes to property can safely be made over to the workers in the interest of economic welfare of the whole community not for a short time but in the long run? These and other kindred problems like those of women's wages, division of society into various strata and its effects on welfare through the distribution of income, problems of inequality, the bases of distribution, viz., merit, need and sacrifice, the question of poverty, etc., should really form the subject-matter of Distribution.[11]

10 This is being gradually recognised, as is evidenced by the fact that Henderson's "Supply and Demand" which is a book on 'Value' includes the discussion on Profits, Rents, Wages and Interest.

11 These are very well treated in some recent books such as Cannan's Wealth and his other works, Pigou's Economics of Welfare, and Dalton's Inequality of Incomes.

THEORY OF DISTRIBUTION AND SOME NEW CONCEPTS IN IT

BY

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According to Prof. Marshall the contribution of the ancient economists to the Theory of Distribution, though small, is yet very solid and substantial. But the modern economists have made a greater and varied contribution as is clear from so many modern publications on Principles of Economics and some exclusively on Distribution.

It therefore might sound rather preposterous on the part of men like myself to attempt any new contribution to the already sufficiently well explored and explained theory of Distribution. Yet the fact is that on account of a close and anxious study of the subject and a careful and clear teaching of the same to the Intermediate and more especially the degree students, I can say as a matter of personal experience and revelation that in the realm of Distribution many new ideas loom before us and yet in the face of the University Syllabus and the fixed period of time before us, it seems undesirable and is practically almost impossible to bring home to the students all or some of such new ideas and we have to rest contented with making only a passing mention of some of these.

It is only in Papers like these that new ideas can be expressed and new suggestions made in order to teach the theory better and make it easier to the students because it is quite certain that in such an eminent assemblage of brother economists all these ideas and suggestions will be discussed threadbare and I am sure even

this discussion will make the most difficult at least a bit easier for the student world.

Of the six books of Marshall's Principles of Economics the sixth on Distribution is the most difficult, yet very useful, necessary and even interesting. Carver's Theory of Distribution is equally so. Taussig, Seager, Franc O Hara, Turner and others no doubt make an exhaustive survey of the Theory of Distribution, yet it is not possible nor easy enough for average beginners, carefully and clearly, to get an outline idea of it and therefore it seems necessary in this paper to attempt a simpler delineation of some of the points at least.

Prof. Jevons in his Essays on Economics no doubt succeeds under Distribution in making the theory quite clear and simple in many respects.

Economics being a fast developing science, new ideas are coming to the front and the subject of the whole of Economics and more especially that of Distribution is of utmost importance to the National well-being and general economic progress.

It is with the separation of the agents of production that the idea of the theory of Distribution acquires some importance and becomes a bit clearer. We all know that the number of the agents of production has gone on increasing from 1 to 2 to 3 to 4 and last of all to 5. Land and Labour were the only two agents formerly. With the growing intricacy in the methods of production, the labourer could not work with his own hands. He did require tools and implements and thus Capital came to be recognised as the third agent of production. With the introduction of the employer system of production capital became the most important agent of production because man the worker instead of working with his own instruments as and when he liked came to work on the raw material and the instruments supplied to him by the employer and within the building of the employer so much so that inside a manufactory he could make full use of his skill and efficiency but outside he was almost a nonentity.

With the introduction of division of labour, machinery and large-scale production or in short the Factory System, the capitalist could not discharge double function and the Organiser came to be recognised as a separate and important fourth agent of production.

The organiser brought together land, labour and capital and then set them in working order and supervised over them.

With the expansion of the markets and the growing intricacies of the forms and methods of production the organiser lost his efficiency as the organiser because he had to waste much of his time in bringing the three agents together and in thinking of bearing the risk as successfully and profitably as possible. The world began to suffer and therefore the fifth agent of production known as the Entrepreneur came to be recognised as a distinct agent of production.

Now it seems to be the function of the buffer entrepreneur to select the industry and then to bring land, labour and capital together and then to put all these under an organiser. He has to enter into agreement with each one of these beforehand and thus he has to bear the risk of profit and loss himself.

As we think carefully and deeply over the functions, importance and utility to the industrial world of this fifth agent of production, it becomes clear to us that the first and foremost function of the entrepreneur is to exercise his discretion in selecting out the industry that will prove most profitable to him and it seems to me that the modern-day entrepreneur has a very limited scope in making such selection on account of keen and even cut-throat competition and he has therefore to think out and even conceive and devise new industrial undertakings after very carefully studying the supply and demand sides. Therefore the modern entrepreneur does not so often and so well succeed as the old one did because he cannot retain and increase his efficiency when he is required to discharge two equally important, onerous and risky duties of bringing the four agents together and thus bearing the

risk upon himself and conceiving at the same time new industrial schemes. This act of conceiving new and profitable industrial schemes requires so many varied and up-to-date abilities, information, discretion and tact on the one hand, and on the other hand, very clear and practical experience of changes in fashion and demand and a detailed idea of the money and real cost of production.

This last function is going to be quite different and distinct from our modern entrepreneur and it seems a new agent of production sixth in number is within a short period of time going to be recognised.

A group of persons well versed in the science and art of Economics and more particularly in business, trade and commerce and quite conversant with the demand and supply in so many countries of the world will take it into their heads and upon themselves the work of conceiving new industrial enterprises. For the sake of convenience we might at present call them the Conceivers.

They will charge a special fee before allowing any enterpriser to get an idea of their scheme and this the entrepreneurs will willingly pay as they will be saved a lot of trouble and get for an ordinary price a cut and detailed scheme which can be easily put into working order. The remuneration of the Conceiver may be called the charges of conceiving.

With the ushering into of this new agent of production the functions of none of the five agents will in any way be disturbed or dislocated, their value under exchange, and their shares of the National Dividend will be most certainly determined as heretofore and the new agent the Conceiver will follow suit.

Combination and separation of functions will continue as of old and will depend ordinarily on the economic conditions obtaining in different countries and primarily on the nature of the undertakings.

Reverting now to the outline of the theory of Distribution it can be said at the very outset that the problem of distributing the surplus can and does arise only when there is a surplus and the

fact that there is or is not a surplus can be ascertained only after exchange has been effected—Positive or Negative surplus does not materially alter the principle of our discussions.

It can therefore be said that the problem of Distribution arises only after exchange has been effected and if there is a surplus.

Here at this stage it seems desirable to throw some light on a very important and useful statement of Prof. Sidgwick, viz., "Distribution is exchange repeated." He thus makes no difference between Exchange and Distribution although he himself in his Principles of Economics devotes quite a separate portion to the discussion of the Theory of Distribution.

Under exchange the entrepreneur, we know, before setting the forces of production into working order enters into a definite agreement with the landlord, the capitalist, the labourer and the organiser and has to pay them just at the end of the period agreed upon, e.g., rent has to be paid per month or per annum, interest every month or every three or six months or annually, wages per diem, or week or at the latest every month and salary every month while conception charges shall have to be paid lump sum just at the time an entrepreneur makes a selection from the preparation or concepts of the conceiver. All these remunerations have to be paid even before a commodity is produced and they form part of the total cost of production. They are determined by the supply of these agents available at a particular time and place on the one hand, and on the other by the then demand for them at that place most certainly other things remaining the same.

On the supply side we have to enter into the details of the cost of production of each of the agents of production, and on the demand side the utility of them to the entrepreneur, and in other words the utility of the commodity thus produced to the consumer or I might even say, the value of their services through the utility of the finished product to the consumers in general. Because it is absurd to think that any entrepreneur will pay any price to all or any of the agents of production irrespective of his net profits

that is of the price at which the finished product will be sold and the cost of production. Thus it is clear that the surplus looms large before the entrepreneur while he makes an agreement with these agents of production. It perhaps will thus be evident that Prof. Sidgwick's remark is not far from the bare truth. But the fact remains that after the contract has been made (most certainly with the prospect of the surplus) payments are made irrespective of the surplus and long before the surplus does arise, and therefore we can say that distribution is quite a distinct branch of Economics.

Under Distribution we have got to emphasise not so much the supply side of the agents, their cost of production, but the demand for the finished product or its utility to people in general and thus ascertain the positive or the negative surplus as the case be. Under Exchange even in the face of a negative surplus the settled remuneration has got to be paid, while under Distribution, through the buffer nature all the agents receive a setback in the case of a loss. Whatever is paid under Distribution according to the buffer nature of an entrepreneur to the four or in future the five agents of production is something over and above what has already been paid to them under exchange and depends primarily on the surplus and here under Distribution the net profits have first to be paid to the entrepreneur. It is here that the marginal productivity theory helps us a deal.

In this connection I am often led to think and feel that a part of the surplus should and does go even to the consumers, because most certainly they too are an important contributor or creator of the surplus, I say " should " because no book on the analysis of the surplus does consider the share of and allot any of the dividend to people as consumers, and I say " does " because I feel that with increased Demand, Supply tends to increase with greater *economies*, division of labour, large-scale production and increased efficiency and thus cost of production goes down and prices are lowered and the consumers gain. I cannot understand how the

demand side does not contribute anything towards the surplus and if it at all does even an iota and I am sure it does much more, then how can any contributor, be he an agent of production, or that of demand, be left out of consideration.

It will thus be clear that in a study of all these things including among them the influence of distribution over national well-being we have to discuss, understand and systematise a number of things which can never be discussed and in a manner quite different from that adopted under exchange. The consequences of Distribution are far more important and farther reaching than those of any other branch of Economics.

We now come to the scientific position of the problem of Distribution, and I should like to give a summary outline of the same as we all know that so many able, experienced and learned authors have placed at our disposal an exhaustive, true yet clear exposition of this portion of the theory.

(*i*) When and why does the problem of Distribution arise?

(*ii*) How do we get a Surplus?

(*iii*) Why should the Surplus be distributed?

(*iv*) Among whom is the Surplus distributed?

(*v*) What is the form and the manner in which this Surplus is distributed?

(*vi*) How is the share of those that are entitled to a part of this Surplus determined?

(*vii*) What is the effect on society in general of this Distribution of the Surplus thus?

(*viii*) What will be the consequences otherwise?

(*ix*) Does the State in any way take any part in regulating this Distribution and does it get any part of the Surplus?

(*x*) Are there any suggestions to make the Distribution of the Surplus as fair, just and proper as ever?

Within the time at my disposal and with my limited knowledge it is not possible for me to enter into a detailed discussion of each of these ten points and therefore I shall simply make an attempt to show by way of a hint what these points generally aim at and by way of suggestion submit and invite the ideas that should form part of these ten points or of the whole theory and practice of Distribution. According to Prof. Marshall the second question is more important than the first. With the help of so many questions does he explain to us the way in which we should know why there is a Surplus. In his words and quite right it is from nature that we first get the idea of a surplus and because there is a surplus it must be distributed and distributed only among those that are responsible for it. It is, however, very difficult to ascertain accurately all those persons that are responsible, because in a way almost everybody has made some contribution or other. This is not a question of a town or a nation but a world-wide and therefore international question and thus its importance is the greatest.

The surplus as we all know is due to the forces of demand and supply and if the cost of production just equals the price offered then there is no surplus. But it is also a fact that nobody will for long carry on a business if there is no profit over and above the normal profits and therefore for one reason or other if the Demand price is greater or less than the cost of production, there is a surplus. The difference between the Supply and Demand may be due either to supply through increased efficiency, greater economies, etc., or to Demand; but the surplus is due to these two forces most certainly.

We have thus far known summarily the nature of the first four questions. The fifth is rather more important and necessary. Practically we all know that the surplus is distributed in the form of money, but money according to Prof. Jevons is not the thing that is distributed. It is simply the medium of distributing the surplus, because there is no better medium available. It is really

speaking the surplus utility that is distributed. The manner of distribution of the surplus can best be understood by an explanation of the buffer nature of an entrepreneur.

We all know that in a railway train there are long protruding iron cylinders known as buffers on either side of every carriage and it is these buffers that receive the shock first on the meeting or joining or even colliding together of the two carriages. Later on the shock is transmitted to the compartments close to the buffers and gradually to the whole train.

Exactly in the same manner the entrepreneur on an equilibrium between the forces of Demand and Supply having been established, receives the shock of profit or loss as the case may be and then gradually he transmits the shock to agents placed closest to him and then gradually all throughout the region. In the train the shock is transmitted on either side first to closest ones and later on to others until the shock spreads and distributes itself throughout the whole train.

The entrepreneur retains the shock for a while and then begins to transmit it. If he makes a loss he at once reduces first of all the number of labourers under him and then does reduce his demand for capital and land and last of all he has got to encroach even upon the salary of the manager. The newly conceived agent will fare similarly, because under such circumstances the entrepreneur will not be demanding the services of the conceiver. Being thus dispensed with, the supply of labour, capital, land and organisation, other things remaining the same, does increase and therefore their prices go down and they share the shock of the negative surplus.

On the other hand, when an entrepreneur makes a positive surplus, i.e., a net profit he is tempted to make still greater profit which under normal and fair conditions he can only by increasing his scale of business. He does therefore increase his demand for capital, land, labour and organisation. Other things remaining the same, the rate of wages of each of these therefore is raised

and thus they get a share of the shock of profit. Retaining the analogy of either side of the buffer. . . .

We can say that the entrepreneur on one side has the agents of production to benefit or harm and, on the other, the consumers in general and as all are in some way or other competing groups all do receive sooner or later a part of the shock.

Under question (*vi*) we have to remember that because an entrepreneur gets a surplus he does not call back any agent of production and pay him a part of the surplus. Yet it is certain that he cannot very long retain with him the surplus and if he does so unnecessarily long, he fails in his enterprise.

The theory of exchange does no doubt help us a deal in determining the share of each individual agent or contributor to the surplus. It is here that the marginal productivity theory does come to our rescue. Marshall's explanation of this theory and his example of the shepherd are justifiably classical and deserve all careful study at our hands. This theory is a stumbling block to many a student and yet nobody can hope to do full justice to the theory of distribution without the marginal productivity theory.

Everybody being entitled to a part of the National Dividend is sure to feel the effects of fair and unfair distribution and also of an absence of distribution. If everybody gets just what he deserves he is encouraged and works enthusiastically and the society gains because thereby the total stock of wealth produced in a nation in the course of say a year does increase much. If anybody does not get what he deserves or others get more than they should, then there is dicontent and society suffers.

In the absence of distribution the whole society is to become extinct (*ix*), it must be admitted that this is a very knotty problem and there is a difference of opinion on the question of State interference in matters of regulating wages, prices, etc., not to speak of the distribution of the surplus. It is, however, worth our while to broach a discussion on this point and study it carefully and in detail all its sides and come to a scientific decision

and communicate the same to the Government and the public.

I feel however tempted to say by way of a hint that in my opinion taxes, customs and excise duties are the things through which the Government regulates and gets a part of the surplus. Above all it must be admitted that the growing prosperity of a nation, the best asset of a Government, is the part that the Government receives of this surplus.

By way of a suggestion I must submit that as it is a recognised fact that for the prosperity and well-being of the people both the Government and the people do exert their utmost, therefore it is the bounden duty both of the Government and the people to think over this question openly and scientifically and suggest means by which distribution can be made as far as possible because nowadays when the whole world is interconnected, unfair distribution in any one country is sure to affect the whole world. Therefore this question of a world-wide importance deserves all careful consideration at the hands of such an august body as the All-India Economic Conference.

THE MATCH INDUSTRY IN INDIA

BY

RAJA SIR DAYA KISHAN KAUL, K.B.E., C.I.E., D.B.

I am thankful to you for giving me an opportunity of addressing you on a subject which though technically speaking does not come within the purview of the programme of this conference, has nevertheless an importance from the point of view of practical economics. The subject I have chosen relates to one of the indigenous industries of the country. The economic development of a country depends on industries of one type or another, and I feel that it would not be out of place to present to this conference some matter for reflection, bearing on indigenous enterprise, for I believe, the object of the illustrious economists of the country coming together is to facilitate the achievement of practical results. The subject which I have selected to address you on is 'The Match Industry in India' of which I may, with all modesty, claim to possess a certain amount of knowledge. I am encouraged in dealing with this subject, by the reference which the worthy President of the Conference made in his Presidential address to the Excise on Matches as forming one of the possible sources of revenue to improve the finances of Government.

The efforts to establish indigenous industries of a country are bound to be confronted with enormous difficulties when similar well-established industries in other countries are pitched

against their growth, and the struggle which the native industrialists have to face in the earlier stages of every such industry, can lead to successful results only if the brains of the country set themselves in earnest to the task of devising means of enabling the indigenous industries to pass through their infancy without being strangled. It is equally necessary that the Government of the country, supporting the interests of its people should afford ample and effective protection to them during this period.

Protection *versus* Free Trade has been a contentious economic question for a long time, but under the existing world conditions, almost all countries are finding it necessary, at times, to adopt protective measures in one form or another. Match manufacture though not such an extensive industry as cotton spinning and weaving, or such a valuable asset as the manufacture of steel, is nevertheless one which supplies an important daily need of every household in the country.

Until the last decade of the nineteenth century no one in India took up the manufacture of matches seriously. Some attempts were made in that and the following decades, but they failed for want of sufficient technical knowledge and experience, non-discovery of suitable wood for match manufacture, lack of organization and finance, and total absence of any form of protection. The first match factory which survived was the Gujrat Islam Match Factory founded in Ahmedabad in 1895 under Indian management. Up to 1921, nevertheless, it had to face severe competition from imported matches; and in spite of its great advantage in having very cheap labour and low overhead charges it eked out a hand-to-mouth existence. Prior to 1916, the duty on imported matches was only 5 per cent *ad valorem*. In March 1916 it was increased to 7½ per cent, and in March 1921 it was fixed at 12 annas per gross. In March 1922, the duty was again doubled and fixed at Rs. 1-8 per gross. This high Tariff, all the same, had the effect of stimulating local manufacture and substitution

of foreign by local matches as the following figures of imports will show:—

1915-16	18·3	million grosses
1921-22	13·7	,, ,,
1922-23	11·3	,, ,,
1923-24	11·2	,, ,,
1924-25	7·2	,, ,,
1925-26	7·9	,, ,,
1926-27	6·1	,, ,,
1927-28	3·5	,, ,,
1928-29	1·5	,, ,,

There has thus been a rapid and continuous decline in imports. This would have been looked upon as a fairly sound state of affairs, if the opportunity of development afforded by the Tariff were confined to Indian capital and Indian enterprise. The Tariff, however, was not fixed as a protective measure. The Government of India levied it purely for balancing their Budget. The protection of the Indian Match Industry was not contemplated at that stage.

To enable you to grasp the situation properly, I might mention that before the imposition of the Revenue Tariff of 1922, Sweden was the principal supplier of matches to India. Sweden, moreover, had meanwhile reorganized its match trade by forming a powerful Kartell which had imposed its will on most of the European countries in various ways, and had worked out a programme of world domination in the manufacture of matches. With the Revenue Tariff imposed in India on matches, and the consequent Indian response to open up factories in the country, the Swedish Trust was exposed to the risk of losing their vast income from India. Taking the pre-Tariff wholesale price in India of the Swedish matches as Rs. 3 per gross and the rate of Re. 1 per gross at which Swedish matches have been landed in India, there was a clear profit of Rs. 2 per gross. Assuming the Swedish import, at the time, to be two-third of the estimated India con-

sumption of 18 million gross annually, the yearly profit to the Swedish Trust on 12 million gross could be safely reckoned at Rs. 2,40,00,000. This was naturally too tempting a figure for the Swedish Trust to forego without a hard tussle.

As a result of this duty of Rs. 1-8 per gross a large slice of the importers' profit went to the Indian Government, and the response of Indian capital to the possibility of development in India, threatened the remaining profit of the Swedish Trust. This was clearly foreseen by the Swedish Trust; and they therefore launched upon constructing their own factories in India. With the facilities at their command, this was done rapidly. Indian enterprisers on their side visualized the establishment of a national industry which could in time stand a good charce of holding out against world competition and making India self-contained as regards the manufacture of this article of daily consumption; but foresaw, as well, the danger of conflict with the Swedish Trust. To safeguard their economic position, all Indian manufacturers with one voice, asked for protection against the designs of the Swedish Trust. The matter was entrusted by Government to the Indian Tariff Board. The crux of the matter lay in protection against the designs of the Swedish Trust which was developing into a powerful menace, in the country, to the indigenous enterprise and to a healthy and progressive growth of the industry. The Indian Tariff Board, however, was presumably precluded, on grounds of policy, from discriminating between Indian and Foreign Enterprise and interests, and hence the very object of the reference was defeated. All measures discriminating between Indian and foreign enterprise were scrupulously avoided. The Swedish Trust was treated as an Indian manufacturer; as such, it was the largest individual manufacturer; as the largest, it was the most important manufacturer; and as the most important manufacturer, it received the greatest amount of consideration. It is true that no preferential treatment over Indian enterprise was given to the Swedish Trust; but the attitude of the Tariff Board in itself gave

the Swedish Trust more than what it required in order to carry out its designs. It will thus be seen that although the enquiry of the Tariff Board was initiated mainly to find a solution of the predicament in which the Indian enterprise found itself, the recommendations of the Tariff Board resulted in helping the very interests against which help was in reality sought.

I have given you in an abstract form:—

1. The cause of impetus to the development of the Match industry in India.
2. The response of Indian enterprise in the hope of establishing a national industry.
3. The danger which Indian enterprise foresaw in the way of the attainment of its aim.
4. The demand of Indian enterprise for protection against the danger of the all-swallowing activities of Swedish Trust.
5. The manner in which the danger instead of decreasing has increased.

A closer study of the question would require an examination of the Indian Tariff Board's Report—its arguments and proposals. These are published and can speak for themselves. The Tariff Board was apparently fettered by other considerations than the economic interests of the country, and in addressing a representative economic body as we have here to-day, my object is to suggest for your careful consideration a problem, which I, as one of the enterprisers, in the Match industry, have had to face in all its bare reality; and which, if scientifically handled by trained minds, may be capable of solution in the best interests of the country.

The principal questions for consideration which suggest themselves to my mind are:—

1. How far was the Indian demand for protection against a foreign Kartell economically sound and desirable?
2. Assuming the demand to be sound, how far was the Tariff Board justified in ignoring the demand for

protection of Indian manufacturers against the Swedish Trust?

3. How far is the present situation capable of remedy and in what manner?

Let us take them one by one:—

No. 1.—With regard to the soundness of the Indian demand for protection against a foreign Kartell, I have always felt that the opportunity which incidentally arose by the levy of the Revenue Duty in 1922, should have enabled the indigenous industry to establish itself firmly if it had only been helped by protection in the initial stages. Many attempts to establish match factories in India had hitherto met with failure. The past five years' work has, however, proved that India can manufacture matches as serviceable as any other in the world, at practically the same cost in spite of smaller scale working and the higher cost of machinery, chemicals and paper. Afforded the remaining advantages, which I believe is merely a question of time, and provided the Indian enterprise survives, the country is capable of providing not only all its requirements but also of developing an important export trade in matches. If in such favourable circumstances the indigenous industry is not safeguarded against a foreign Kartell, the possibilities of indigenous enterprise would be doomed for ever and the country left entirely to foreign exploitation.

In supporting the cause of Indian enterprise we find the following points which are noteworthy:—

1. The match industry fulfills all the four tests laid down in para 97 of the Fiscal Commission Report for an industry which should be considered deserving of protection, in as far as it has:—

   (*a*) An abundant supply of raw material.

   (*b*) Cheap power.

   (*c*) Sufficient supply of labour.

   (*d*) A large home market.

2. Indian capital and enterprise has not been lacking.

3. Protection of Indian enterprise would increase the development in India of manufacture dependent on the industry.
4. Protection of Indian enterprise would be an asset to the country and the Empire.
5. Indian enterprise has not lacked resource in being able to reduce costs competitively in a short period of five years' working.
6. The reduction of selling price from an average of Rs. 3 to about Re. 1 per gross in seven years. This, on a consumption of 18 million would mean a saving to the country of Rs. 3,60,00,000 per annum.
7. The fact that present average selling price is below the fair average selling price determined by the Tariff Board, signifies the pitch of competition which Indian enterprise is facing, and unless effective measures are taken there is danger that the element responsible for these advantages to the country will be killed.
8. The great lengths of unfair competition to which the Swedish Trust is capable of going by initiating a rates war, encouraged by its 25 per cent dividend earned from over 200 factories all over the world.
9. The fact that the Swedish Trust has bought and is negotiating to buy up the control of Indian enterprise on its own terms under the threat of rates war.
10. The fact that the Swedish Trust has disabled Indian manufacturers from obtaining match machinery from the standard makers of repute in Sweden and Germany; and that there is every possibility that even spare parts will also cease to be supplied.
11. The fact that British Phosphorus Amorphous considered to be the best for match manufacture, and which represents the largest cost in chemicals used

in safety matches cannot be obtained in India except through the Swedish Trust.

In view of the important factors such as these, I do not think there can be two views about the danger of allowing a very powerful foreign Kartell to carry on its designs unrestricted. It is not that the Indian Tariff Board did not foresee the possibilities of this danger. In their own words the position has been summarised as follows:—

Page 88, para 148 of their Report:—"It may be estimated that the Swedish Match Co. now controls not less than 65 to 70 per cent of the total world's demand."

Page 88. para 149:—"The object of the Company is to secure a position in every possible market of the world, which would enable it eventually to regulate prices."

Page 88, para 150:—"Where circumstances are favourable the Company obtains a direct monopoly from the State. In some cases the monopoly is granted because it is considered to be in the economic interest of the country. As an inducement to grant concessions moneys are advanced sometimes as a direct loan to the Government at a low rate of interest or in the shape of discounting, at a low rate, the royalty payable to Government during the whole period of the monopoly. Where this is not possible, and especially where the industry is sheltered by a high tariff, the Company acquires in the country, by negotiation, existing factories or builds new ones. An attempt is then made to obtain control of the industry amicably. If this proves unsuccessful, an intense price war is initiated until the local industry surrenders."

The Tariff Board recognizes on page 90, para 153:

"That the resources of the Swedish Company are sufficient, if it so desires, to crush for a time at least all competition from Indian firms and capture for itself the whole of the Indian market."

Considering the full and complete recognition of the danger in clearest terms by the Tariff Board and the other factors outlined

by me, the Indian manufacturers' case was a very strong one; and nothing but some type of discriminating treatment between the activities of the Indian manufacturers and the Swedish Trust, would have met the requirements of the case. It would be seen, therefore, that the demand of the Indian enterpriser was not only sound and reasonable but was also an economic necessity.

No. 2.—The next point I have to suggest for your consideration is the economic justification of the Tariff Board in rejecting the protective proposals of Indian enterprisers. The principal proposals aiming at a restriction of the Swedish Trust's activities were:—

(*a*) The imposition of a discriminating excise on the manufactures of the Swedish Trust in India.

(*b*) The restriction of the Swedish Trust's designs in India by compelling them to maintain a larger proportion of Indian Capital with a majority of Indian Directors.

(*c*) The levy of a high Tariff on foreign Aspen logs so as to make their use prohibitive and thereby develop the Indian timbers.

The imposition of an excise on the manufactures of the Swedish Combine was turned down principally on the score of a policy laid down by the Fiscal Commission which disapproved of discriminative measures between Indian and foreign capital. No allowance whatsoever was made between the working of a foreign capitalist of ordinary strength and that of a foreign powerful world combine. I venture to think that the policy of the Fiscal Commission was not applicable to this case. The minority report of the Fiscal Commission had however recommended that all concerns, of which three-fourths of the capital was not Indian should be treated as non-Indian.

The next important suggestion relating to the Swedish Combine being allowed to continue its activity if it did so under a Company with a majority of Indian capital share and directorate might have been a reasonable compromise. The Tariff Board

instead of making any definite and binding recommendations to Government, left the position vague and loose. They merely made a suggestion to the Swedish Match Co. in the following words:—

> "The Swedish Match Co. should take steps at the earliest opportunity to organize its business in India on the basis of an Indian Company under the control of a local directorate with suitable Indian representation on it."

The third suggestion aimed at an enhancement of the duty on imported match wood.

This proposal was turned down on the score that India was at the time using a fair quantity of imported match wood, and therefore if a high duty were placed on it, there would be a rush for Indian wood. It was alleged that a sufficient quantity of suitable timber would not be readily forthcoming and consequently there would not only be a general rise in price level but also a dislocation in Indian manufacture.

The arguments may appear at first sight to be sound; but they do not present any insoluble difficulty. No one disputed the fact of India possessing inexhaustible quantities of suitable wood for her own match requirements. The difficulty was mainly in respect of the time it would take to make sufficient and suitable supplies available at economic rates. When we know for a fact that 25 per cent of the Indian manufacture, which began in 1925, was able to secure sufficient Indian timber for all its requirements within a period of two years of the initial attempt, there is no reason, in the absence of clear evidence to the contrary, to assume that the supply of Indian match timber, would not meet a larger and growing demand.

It is clear that if the Indian manufacturers while using foreign machinery, chemicals and paper, also depend on foreign wood, they have no chance whatsoever of success in competing with the Swedish Combine who could land all these articles in India with greater economy. Nor can such Indian manufacture

claim any right to protection as an indigenous enterprise of the country.

The proposed measure might have led to a certain rise in the price of match timber, but that again would have been controlled and checked by the price of matches, as the Indian-made matches could not possibly sell at a higher price than the imported ones. Prior to the imposition of the heavy Tariff on matches, a safety match-box was purchased by the consumer at pies 6 per box; and even with the higher duty the sale price remained the same. The loss was borne only by the importers without affecting the consumer and its equivalent went to Government as revenue. The Indian matches were placed on the market at half the price, i.e., pies 3 a match-box; and the Indian factories could only survive if their prices of finished matches remained below what the imported ones were quoted at. If, therefore, the suggestion had been accepted, the price to the consumer would not have materially altered, while the measure would have meanwhile afforded a great impetus to the development of Indian timbers suitable for match manufacture; and in course of time, the indigenous enterprise would have greatly benefited by it and stabilized. Government would also have gained considerably both from tariff duty and revenues from sale of match timber of Government forests. On the contrary if for want of this protective measure the indigenous enterprise once dies out under the pressure of competition inflicted by the Swedish enterprise, the country would once again be entirely at the mercy of the Swedish Co. and there is no knowing to what scale they might raise their prices eventually.

The suggestion to tax the imported match wood was moreover in conformity with the action taken by Government when, in order to combat the devices to evade the Match Tariff and to protect its revenue, a special duty was levied on imported splints and veneer. Devoid as this suggestion was of any discrimination, it was apparently the fairest and soundest suggestion from the Indian standpoint.

The arguments put before the Tariff Board however bore no fruit as is evident from their recommendations. But in view of some of the aspects I have attempted to indicate today, I trust the Board's recommendations are not the last word on the question.

No. 3.—I have attempted so far to picture before your minds something about the past. But the more important and vital question relates to the future.

In reply to the question of likely remedies against the designs of the Swedish Company's activities in India dealt with in Appendix A of the Tariff Board Report, I had occasion to summarize the position to the Tariff Board in the following words:

"It appears that much confusion will arise as a result of the present enquiry if, while considering the Indian claim for protection, the Swedish American Trust, which is the real danger, is identified in any way as a claimant for consideration with the Indian interest needing protection. If this is done, the whole inquiry will have hopelessly failed in the aim with which it was inaugurated and no amount of Government monopolies or combination of indigenous manufacturers will succeed in averting the danger."

Subsequent to the recommendations of the Tariff Board the Swedish Trust has had the field clear. The result has been:—

1. The Western India Match Co. (only a different name for the Swedish Co.) has been nominally refloated as an Indian Public Ltd. Co. The capital is mainly of the Swedish Company and the control is entirely theirs.
2. The Swedish Co. has strengthened its position by expanding its output capacity with great strides. The Company had in 1928 four factories for the Indian market. The Company has now, in 1930, eleven

factories for the Indian market. In addition to this an Indian-owned factory at Bareilly has been taken over.

3. Negotiations have been and are being conducted with other Indian factories with a view to control and restrict their activity through pressure of rates war which is in progress.
4. The Company has controlled the supply of Swedish and German match machinery.
5. A rates war which was initiated before the Tariff Board enquiry, has been gradually doing its work so much so that it is becoming increasingly difficult for Indian manufacturers to carry on much further.

Perhaps you would like to have an idea of the present price war.

The average fair selling price determined by the Tariff Board in 1928 was Rs. 1-2-7 per gross half size. The future fair selling price was estimated at Rs. 1-2-2 per gross. These prices were much lower than the Indian manufacturers' estimates, being based largely on figures given by the Swedish Company. They were estimated with a view to determine the stage at which Government should interfere. Taking the future economic selling price to be Rs. 1-2-2 per gross, if prices go below this figure, it is evident that a rates war is going on; and a price-cutting competition with the Swedish Trust in this process is as unfair as it is impossible. In the Punjab, some brands of the Western India Match Co. (Swedish Co.), matches are sold as low as -15- per gross, while in Bombay they are selling at about 0-13-6 per gross. The fate of Indian manufacturers in the light of these figures can better be imagined than described. The monopolistic tendencies and designs of the Swedish Match Co. were feared from the very start. A neglect of these has placed the Indian enterprise in the present grave predicament. It is obvious that unless immediate and effective steps are taken at this stage to counteract the activities of

the Swedish Match Co. the Match Industry as an Indian enterprise is doomed to die out.

The remedy to the present situation is one which requires careful consideration. There are two courses open:—

1. Half-way measures to meet the situation in the shape of a compromise or
2. A full and frank recognition of the proved monopolistic tendencies and designs of the Swedish Trust and radical measures to counteract its baneful effects on the Indian Industry

To meet the situation by a compromise, a solution might lie in all the more important and economically situated Indian-owned factories being merged into the Western India Match Co. (Swedish Company's activity in India) and arrangement made to ensure that the minimum Indian-owned capital should be 55 per cent with a majority of Indian directors.

A radical remedy would necessarily involve vigorous restriction being placed on the activity of the Swedish Company in the shape of a sufficiently heavy protective duty on imported match wood, and a discriminative excise. The exact form of the measure to meet the situation from the point of view of varied interests could perhaps be best determined by Government in consultation with the important Indian manufacturers. Dr. Bannerji has also advocated an Excise duty on matches and has considered it necessary to adopt a cautious policy such as may not imperil the very existence of the match factories which it should be the aim of the fiscal policy of Government to protect. What is therefore necessary is to discriminate between factories owned and controlled by a Foreign Kartell such as the Swedish American Combine with unlimited foreign capital and immense resources and experience, and the purely Indian factories whose growth is being jeopardised by the pressure brought to bear upon them by their most powerful rival. The Indian fiscal policy alone can save these indigenous factories which are the country's asset.

To ensure that the Indian enterprisers are guided on economic and sound lines in their consideration of the question of an all-India importance, I have taken this opportunity of commending the subject to the consideration of this All-India Conference. Every province has its own peculiar difficulties at this time, and is in considerable need of sound advice. I trust that the members of the conference will, in their respective spheres, readily furnish the necessary advice. In your joint endeavours will lie the salvation of this Indian Industry, the very existence of which otherwise is seriously threatened.

I have explained to you the difficulties of one indigenous industry. Many other similar industries are yet in their infancy and need the fostering care and attention of the economic brains of the country. To the principle enunciated by the worthy President of this Conference, viz., that all taxation should be for the good of the people of the country, I would only add that in the case of all infant indigenous industries any measures adopted for providing additional revenue to Government should be such as would lead to their protection and development, as is being done most vigorously by America and other countries, and not to their extinction.

WHITHERWARD HO?

BY

RAO SAHIB KESARI SINGH PUNCHOLY, B.A., L.L.B.,

Guardian to the Minor Raja Sahib of Nagod (C.I.)

A casual reference to the prospectus of the Agra University for the year 1930 brought an insertion to notice wherein candidates for M.A. examination in Economics are required to study prospectuses of Indian Universities and Intermediate Boards in order to have knowledge of the scope and method of Economics and the teaching of Economics.

This roused interest in finding out the prescribed courses in Economics of Universities in India and make comparisons. The M.A. course only was selected to keep the investigation within limits. The test whereby to judge the merits of the course prescribed by different Universities presented a difficulty in arriving at. Of course a careful reading of a certain number of books whether prescribed or recommended for reading is a necessity which is hardly ignored by any University. Therefore the books recommended or prescribed for reading did not lead to any sure test of the merits of the course prescribed or recommended. The point whether the students are encouraged to think for themselves appeared to stand on better footing. More so the point whether they are required to make investigations and inferences therefrom. It can be said that thinking and making investigations are two different stages in the one and indivisible process of understanding economic problems and making endeavours to find solutions thereof in which reading of books is only a spade work. Taking this then as the touchstone it can be said that the inclinations of Universities are open to criticism to a certain extent.

If an examination be made of the courses of Universities it would be convenient to take them in an alphabetical order with reference to the location of the Universities. Naturally Agra falls first.

AGRA

The examination is held in eight papers by two compartments. The papers are as follows:—

I. (*a*) Principles of Economics.
   (*b*) History of Economic thought including the history of socialism.

II. (*a*) Economic development and present economic condition of India and England.
   (*b*) Industrial and commercial organisation.
   (*c*) Scope and method of Economics and the teaching of Economics.
   (*d*) Financial organisation.
   (*e*) The state and economic welfare.
   (*f*) Labour problems and social welfare.
   (*g*) Rural and Municipal Economics.
   (*h*) Theory and practice of statistics.
   (*i*) Mathematical Economics.
   (*j*) Co-operation.
   (*k*) Accountancy.
   (*l*) Transport.
   (*m*) Economic and Commercial Geography.

Out of the eight papers one paper is reserved for essay writing, the remaining seven papers are to be chosen in a certain way from the headings given above and for each paper a certain number of books have been recommended the names of which it does not appear expedient to reproduce here for fear of the article assuming unproportionately long dimension.

From a perusal of these headings it becomes obvious that mostly the University requires much reading, less thinking and still less investigation. In Paper II (*c*) besides reading of a few elementary text-books comparisons have been recommended to be made. It is also necessary to have knowledge of certain articles in Economic Journals and of the reports of the Allahabad Conference of Teachers of Economics. Prospectuses of Indian Universities and Intermediate Boards are also required to be gone into. This no doubt means a small departure from the routine of mere reading. Herein one has to think and do something beyond mere reading.

Paper II (*i*) deals with a subject of intense practical importance but no books have been recommended. The prospectus for 1930 to which reference has been made in order to write this article has an insertion that no books have been recommended yet. No criticism can be fair without a knowledge of what actually the University has afterwards been pleased to recommend but looking to the general trend of recommendations it can be said that if the University requires its candidates after they have read certain books on Co-operation to examine the actual workings of certain co-operative societies or a co-operative bank it would be exceptional.

ALIGARH

This University like Agra sets eight papers.

I. Advanced Economic Theory.
II. do. do. do.
III. Currency and Banking.
IV. Public Finance.
V. Rural Economics.
VI. do. do.
VII. Recent Economic History.
VIII. Essay.

Books have been recommended and candidates are required to go into certain subjects with special reference to India. The University has shown a keener interest in advanced economic theory and rural economics. Certain reports have been recommended for reading but it can be said with due respect to the authorities of the Aligarh University that in the course prescribed they have kept no room for the exercise of thinking faculties and much less for investigation of any kind.

ALLAHABAD

This University holds two examinations and altogether sets eight papers. It is also necessary to present and pass in one essay approved by the head of the economics department and prescribed during the year. The essay becomes the property of the University. The subjects for the Previous Examination are as follows:—

I. Economic development of England and India with special reference to the period after 1760.
II. Industrial and commercial organization.
III. Financial organization.
IV. The state and economic welfare.

As against this, eleven different subjects have been mentioned from which selection can be made for the final examination. Any three subjects together with advanced economic theory and essay constitute the subject-matter for this examination. The eleven subjects are as follows:—

(1) Advanced economic theory.
(2) History of economic thought including social and commercial theory.
(3) Labour problem and social welfare.
(4) Rural and Municipal Economics.
(5) Theory and practice of statistics.
(6) Accountancy.
(7) Mathematical Economics.

(8) Teaching of Economics.

(9) Transport.

(10) Economic and commercial geography.

(11) Special subject for detailed study such as co-operation, famine, trade-cycles, to be announced each year.

Books are recommended for each paper and in certain respects the Allahabad University proceeds on the same lines as Agra or *vice versa*. The remarks therefore which have been made for the Agra University can be deemed equally applicable to Allahabad with this difference that special stress is laid in Allahabad on the preparation of the essay.

BENARES

This University like its sister mentioned above holds two examinations in eight papers, one being for an essay. The remaining seven papers are as follows:—

I. Principles of Economics.

II. Money, Banking and Exchanges.

III. Principles and Administration of Public Finance.

IV. Rural Economics.

V. History of Economic Doctrines with special reference to the contribution of one noted economist recommended for each year.

VI. Modern Economic History of England and India.

VII. Problems of Industrial Organisation.

It would be seen that with the exception of Paper VII, all other papers mostly require extensive perusal of the books recommended. Even in preparing for Paper VII, there is not much which will inculcate right methods of thinking in Economics. It is not too much to hold that the younger University could have put in a different sort of life in the study of Economics. With due respect to the University authorities it may be said that mere reading of books will produce men who will know much but will accomplish very little.

BOMBAY

This University stands on a very different footing. The gate-way of light from the west, the centre of an important industry and general trade it refuses to recognise the importance of the study of Economics to the same extent as other Universities in India do. It does not permit a separate examination to be held for the degree of Master of Arts in Economics. Why it is so one may wonder. It only permits economics to occupy a very subordinate position under the heading of "History." The examination of History takes place in eight papers and candidates may at their option submit to a written examination of eight papers in any two of four groups given or they may offer a thesis on a subject dealt with in any of these groups in lieu of the whole of the written examination. Group (*c*) of these groups deals with:—

(1) Economic History.

(2) Advanced Economic Theory.

(3) Indian Economics.

(4) An essay on Economics.

It may be said that there is some encouragement to original work and as far as this much is concerned the University has its own merits. But it is respectfully submitted that there is lack of recognition of the place which Economics deserves to be given in the list of subjects for M.A. examination.

CALCUTTA

This University also shows a tendency to give a subordinate place to Economics. It sets eight papers in Political Economy and Political Philosophy, four papers being common to both, which are:

I & II. General Economics.

III. General Principles of Political Philosophy.

IV. Public Administration.

Then bifurcation takes place into two groups. Group I deals with Economics and Group II with Philosophy. In Group I, the first paper (which is Paper V) deals with General History of Economics and the second and the third (i.e., Papers VI and VII) deal with five sub-groups which are as follows:—

(*i*) The history, theory and present system of banking and currency.

(*ii*) History, theory and present organization of international trade.

(*iii*) The theory and practice of statistics including demography.

(*iv*) Elements of statistics and the mathematical treatment of economic theory.

The eighth paper is on an essay and the candidate is required to choose his topic from the subjects given which are as follows:—

(*i*) Famines, (*ii*) Co-operation, (*iii*) Railway, (*iv*) Industrial organisation, (*v*) Currency problem, (*vi*) Land system, (*vii*) Forms of Government, (*viii*) Statistical studies, (*ix*) Village communities, (*x*) Labour problems, (*xi*) Foreign trade and exchanges, (*xii*) Tariff problems.

The essay must treat the topic with special reference to Indian conditions.

It will be seen that this University deems it essential that a candidate for degree in Economics should take as one of his papers general principles of Political Philosophy. There is no doubt that this University does not deal with Economics as summarily as Bombay but technically speaking it is now time that Economics is given the place it deserves.

Applying the test given above it would be seen that this University requires its candidates to do little beyond mere reading.

DACCA

The examination is held by two compartments and in eight papers. The preliminary examination is held in three papers only: (*i*) Principles of Economics (omitting theories of money, banking, international trade and foreign exchange), (*ii*) Modern Economic History of England and India, (*iii*) Currency, banking and international trade.

There are five papers for the final examination one of which is for an essay with special reference to problems of current economic and political interest. The remaining four papers are as follows:—

(1) Economic Theory and History of Economics.

(2) Political thought from Rousseau to the present day.

(3) & (4) Either on (*a*) history, theory and present system of currency and banking, or on (*b*) history, theory and present organisation of international trade.

This young University appears to have caught the infection from its elder sister in Calcutta in including a paper on Political thought in the examination in Economics. Moreover it does not give a sufficiently wide range for the students to choose from. It lays special stress on currency, banking and international trade. It follows the system of majority of Universities in India in showing lack of prescribing subjects which require thinking to be done by candidates.

DELHI

This University differs from some other Universities round about in one important respect. It sets only six papers (while others do eight) which are as follows:—

I. On theory of production, value and distribution including history of Economic thought on the subject.

II. On theory of international trade, tariff history and tariff problem with special reference to India.

III. On prices, currency, banking and exchange with special reference to India.

IV. On Public Finance, with special reference to India.

V. On Economic History.

VI. Consists of (*a*) an essay, and (*b*) a paper on any one of the following:—

(*i*) India's rural economy, (*ii*) Indian industrial problems, (*iii*) Indian railway problems, (*iv*) Co-operation in India.

It would be seen that part (*b*) of Paper VI requires some work to be done by a candidate. He is expected to gather materials from a number of books, then use discrimination and make adjustments. This is no doubt a work which requires something to be done beyond mere reading.

HYDERABAD

This University does not appear to hold any examination in Economics.

LAHORE

This University holds the examination in six papers only. It appears that its younger neighbour (the Delhi University) has taken it as a model and limited itself to six papers as distinguished from eight which are general in Northern Indian Universities. Of these six papers one is on Political Science and one is on an essay and thesis on a prescribed subject connected with Indian Economic conditions, special value in the thesis to be attached to the actual local investigation done by the candidate. The thesis is expected to be written during the candidate's period of study and presented to the University with his application to appear at the examination. The size of the thesis excluding appendices is not expected to exceed 50 type-written pages (double space).

The following subjects are prescribed for thesis:—

(1) The Economic effects of the Punjab canal colonies.

(2) An enquiry into *at least* three of the following topics in any village selected by the candidate. For the method of treatment the candidate should refer to the questionnaire for Economic enquiries published by the Board of Economic Enquiry, Punjab (Rural Section) to the chapter of which the figures refer:—(*iv*) Holdings, (*v*) Effects of tenancy, (*vi*) Land revenue and *taccavi*, (*vii*) Indebtedness, (*viii*) Yields, (*xiv*) Rents, (*xvi*) Consumption.

(3) An Economic survey into the conditions of the employment of any important class of artisans in any city in the Punjab.

The remaining four papers are as follows:—

(1) General theory.

(2) International Trade, Currency, Banking and Public Finance.

(3) Indian Economics.

(4) Economic History.

Paper (3) deserves special consideration. The prospectus beside recommending a number of books and reports for consultation prescribes the syllabus which deserves reproduction here and which is as follows:—

(1) The background of the industrial and economic history of India with special reference to the last 50 years.

(2) Problems of Indian Economics.

(1) *The Agricultural situation.*—Systems of land-ownership, tenantry problems, subdivision of farming land, joint ownership and intermixed holdings. New methods, machinery, farm animals, manures, agricultural education. Indebtedness and market-

ing of produce. Irrigation: Well-canal-reservoir. Farmers' associations.

(2) *The Industrial situation.*—Present state of land and cottage industries, future of such industries. Machine industry, the foreign capitalist, the Indian capitalist, types of machine industry—the cotton, jute and leather industries. Wages and conditions of labour. Lines of development. Comparison with Japan and China.

(3) *The Currency and Banking situation.*—History of money in India especially since 1835. The silver problem—Herschell and Fowler Committees, the Chamberlain Report, War Currency, present situation. Comparison with Philippines, China and Japan.

Banking.—Indigenous methods, the hoondi, the shroff and Mahajan—banking castes. European banking in India. Presidency banks, joint stock and exchange banks. The present situation, the desirability of a Central State or federal system of banks, Agricultural and Co-operative banks.

(4) *The Trade, Railway and Tariff situation.*—Historical resume—Growth of trade since 1870, classification and direction of trade. Railways: Historical resume—State-guaranteed and Company lines; Railway policy; Railways and trade. Tariff: Historical resume—Imperial preference, protection, relation of tariff to industries.

(5) *Co-operative problems.*—Remedies for the decay of village unity and vigour. A brief study of social organisation in the older village. Forces of disintegration. Chief features of co-operation in India. Comparison with European experience. The future of the village.

(6) *Indian Finance.*—Chief features of Revenue and expenditure. Provincial finance, local taxation. Financial questions arising in connection with Famines.

(7) *Course of prices and wages in India; and causes of movements in them.*—It would be seen that this University has two

specialities. The one is that while some other Universities desire candidates to read certain subjects with special reference to India, this University collects the consideration of Indian Economic problems in one paper. It is unique to give special treatment to questions having a bearing on India but it has respectfully to be pointed out that perhaps too much has been required to be done within the scope of a single paper. Not only is the background of the Industrial and Economic History of India required to be known but pointed attention has been directed to the Agricultural, the Industrial, the Currency and Banking, the Trade Railway and Tariff situations, Co-operative problems, Finances and course of prices and wages. If a candidate is to deal with the subjects with the thoroughness which they deserve the paper would become so swelled that it can very well be called crowded.

The other point is the thesis of which mention has been made above. As far as known Lahore is the only University that requires actual local investigations to be made by the candidate, with the thoroughness which they deserve.

LUCKNOW

This University holds examination in two parts. In the first part there are three papers as follows:—

(*i*) A comparative study of Economic theories and institutions (Social and Rural).

(*ii*) Principles of Sociology.

This consists of two halves, the second half being "Social Ethics."

(*iii*) Any one of the following subjects:—

(*a*) Currency and Banking.

(*b*) Public Economics.

(*c*) International trade (including emigration).

(*d*) Statistics and Mathematical Economics.

(*e*) Labour and industrial betterment.

(*f*) Social Economics.

(*g*) Social anthropology.

In part two there are three papers as shown below in groups, the subjects marked with an asterisk may be offered as a subject for thesis.

(*a*) (1) Population and Immigration in India.

(2) The Industrial development of India.

(3) Indian labour problems.

(*b*) (1)* Indian consumption.

(2) The Agricultural labour in India.

(3) Famines.

(*c*) (1) Indian Agricultural Economics.

(2) Indian land tenures and agrarian legislation.

(3)* The co-operative movement in India.

(*d*) (1) Agricultural customs and usages in their ethic aspects.

(2)* The system of socio-economic hierarchy in rural India.

(3) Customary rights in village communities.

(*e*) (1)* Indian trade and craft guilds.

(2) Indian home and cottage industries.

(3) Indigenous Indian banking.

(*f*) (1) An Indian mill industry.

(2) Indian mining.

(3)* Factory management in India.

(*g*) (1) Special problems of Indian industrialism.

(2) Occupational disease and mortality.

(3)* The sociology of a typical Indian mill town or railway city.

(*h*) (1) Indian joint stock enterprise.

(2) Industrial capital and finance in India.

(3)*Lines of Indian industrial advance.

(*i*) (1) Indian Railway Economics.

(2) Water transport and irrigation.

(3)* The organization of rural trade and transport in India.

(*j*) (1)* Indian finance and taxation.

(2) Indian public loans.

(3) Indian currency and banking.

(*k*) (1) India's foreign trade in the last two decades.

(2) India's fiscal problems and policies.

(3)* Indian inland trade.

It is open to a candidate to offer a thesis in lieu of a paper.

This University shows inclination towards sociology in the same way as Lahore and Calcutta Universities show towards Political Science and Thought. Moreover it is unique in offering groups for the second paper and giving its candidates option to present a thesis in place of a paper. In these groups the University makes an effort to inculcate a tendency towards investigation and requires its candidates to familiarise themselves thoroughly with some topics of Economic importance in India.

MADRAS

This University divides the subject of Economics into three parts:—

(*i*) Economics, General I.

(*ii*) do. do. II.

(*iii*) do. Special.

Economics, General I, includes the scope and method of Economics, the theory of value, production, distribution and consumption.

Economics, General II, includes banking and currency, international trade, public finance, business and labour organization and other questions of applied economics.

Economics, special, gives an option of any two subjects out of the following subjects:—

(1) Recent Economic History.

(2) Banking and Currency.

(3) Labour problems.

(4) Indian land tenures.

(5) Rural Economics.

(6) Public finance.

(7) International trade.

Books have been recommended for each of these subjects and it is not clear from the literature supplied by the University to me whether an essay is required by the University to be prepared and whether the examination is held in compartments. In any case it is quite clear that there is not much scope in the course prescribed for the exercise of thinking faculties and for making investigations.

MYSORE

This University treats History, Economics and Political Science under one heading and prescribes course for study as follows:—

I. General—Three to be selected from the following:—

(*a*) History of India to 1500 or History of Europe, Mediæval.

(*b*) History of India from 1500, or History of Europe, Modern.

(*c*) Political Science.

(*d*) Economics.

(*e*) Statistics.

(*f*) Recent Economic History (after 1800) of England and Europe.

(*g*) Recent Economic History (U.S.A., Japan and India).

(*h*) Indian Epigraphy.

Note.—This paper shall be compulsory for those who offer History of India up to 1500 A.D.

(*i*) Mathematical analysis comprising course in advanced Calculus and differential Equations.

II. Special—Four to be selected from the following:—

(*a*) Indian History	...	A prescribed subject or period.	
(*b*) Indian History	...	do	do
(*c*) European History (mediæval)		do	do
(*d*) European History (modern)	...	do	do
(*e*) Political Science	...	A prescribed subject.	
(*f*) do do	...	do	do
(*g*) Economics	...	do	do
(*h*) do	...	do	do
(*i*) do	...	do	do
(*j*) do	...	do	do

(*k*) Numismatics.

(*l*) Ethnology.

(*m*) History of China and Japan.

(*n*) European Colonial History and Administration.

(*o*) Local Government and Finance.

(*p*) History of Kannada Language and Literature, or of any other selected language.

(*q*) Mathematical Economics.

(*r*) An intensive statistical enquiry.

III. Each candidate shall also be required to write an essay on a subject to be selected from a group of alternatives. Special subject for the M.A. degree examinations of 1929, 1930 and 1931 in History, Economics and Political Science.

(*i*) History—

(*a*) Indian History.

(*b*) European History.

(*ii*) Economics—

(1) International trade with special reference to India.

(2) Public Finance ,, ,, ,, ,,

(3) Rural Economics ,, ,, ,, ,,

(4) The Co-operative Movement ,, ,, ,,

(*iii*) Political Science.

It would be seen that Economics has been given a due place but very little can be said as to what work the candidates are required to do beyond mere reading.

NAGPUR

This University holds the examination in nine papers by two compartments. The Previous Examination is held in four papers as follows:—

(1) Scope and method of Economics. Consumption, production and exchange (excluding mechanism of exchange, i.e., money, etc.).

(2) Distribution, History of Economic doctrines.

(3) Money, banking, international trade, foreign exchange.

(4) Economic History of India and England from 1760, Economic History of Germany from 1871,

For the Final Examination a candidate must take (1), (5), (6), and any two of Papers (2), (3), and (4). The subjects of the papers are as follows:—

(1) Rural Economics of India, with special reference to Central Provinces and Berar.

(2) (*a*) Industrial organization, (*b*) Monopoly and trust problems.

(3) (*a*) Railway Economics and Transportation, (*b*) Public finance.

(4) (*a*) Population, (*b*) Labour problems and Trade Union. (*c*) Urban co-operation and profit-sharing.

(5) Essay on a detailed account of a practical Economic investigation undertaken by a student.

(6) *Viva voce* examination.

It is clear that this University lays great stress in having more explanation papers than other Universities but it is to be noticed that *viva voce* examination also forms the subject-matter of a paper. Special attention is invited to the option given as an alternative for an essay and it is a detailed account of a practical investigation undertaken by a student.

PATNA

This University holds the examination in eight papers of 4 hours each. The papers are distributed as follows:—

I. General Economics, three papers:

(1) A paper on advanced economic theory, including the theory of international trade.

(2) A paper on modern industrial and business organization including banking and the methods of settling international indebtedness and upon the theory and functions of money.

Note.—In connection with Papers I and II candidates are expected to show a knowledge of the history of the more important economic theories.

(3) A paper on one of the following subjects:—

(*a*) Economic History.

(*b*) The Principles of Taxation and Public Finance.

(*c*) The organization of international trade and a comparative study of tariff policy.

(*d*) The theory and practice of statistics.

II. Political Science, two papers:

(1) A paper on the history of political ideas studied with reference to selected original authorities.

(2) A paper on the history and present organization of Government in Great Britain and British India.

III. Selected Economic Problems, two papers.

One paper on each of any two of the following subjects studied with reference to Indian conditions and first-hand materials:—

(*a*) Indian Economic History from 1757 A.D.

(*b*) Public Finance.

(*c*) Economic aspects of Indian agriculture, with special reference to Bihar.

(*d*) Transportation.

(*e*) Co-operation.

(*f*) Indian banking and currency.

Note.—A knowledge of the economic functions of the state relative to the particular problems studied will be required of candidates.

IV. Essay, one paper.

Note.—All candidates for the M.A. degree will be expected to possess a knowledge of the Economic history of England and India such as is required of B. A. Honours candidates.

This University puts aside two papers for Political Science but at the same time requires study of economic problems also. It requires the economic aspects of Indian agriculture to be studied with special reference to Bihar which is to its credit.

> *Note.*—The Waltair University does not hold an examination in M.A. and the Annamalai University could not furnish me with necessary literature in time.

It would be seen that the subject of Economics meets with different degrees of appreciation in different Universities of India. Some give it a place in the subjects for M.A. examination while others combine it with other subjects. Some hold the examination in six papers, others do it in eight while one University sets nine papers. Some allow essay to form one of the subjects for a paper while there is one University which requires the essay to be a thing entirely separate from the eight papers in which the examination is held. Mostly the papers are of 3 hours' duration while there is one University which requires the paper to be of 4 hours each. Some require thesis to be written but the majority do not appear to care for any work of practical investigation to be done by the candidates. On the whole though it is understood that all Universities need not work on the same and uniform lines, it is clear that very little scope is given for the exercise of the thinking faculties and practical work. Really so much reading work is required to be done by the majority of Universities that it is hopeless to expect that thinking and investigating habits would be encouraged.

It would not be out of place here to mention that there used to be at one time a feeling in the student community that it was comparatively easy to pass the examination in Economics and so most of them took up that subject not because they thought it to be useful but because they thought that success in examination was easier. It is permissible to think that perhaps some Universities have lengthened their courses to counteract such a tendency,

If this is correct, perhaps the right step has not been taken. The real question is, are the Indian Universities training youngmen in Economics on right lines? Are the Universities prescribing courses which would prepare Economists who would be valuable as such after the examination is passed? Or in other words, would such Economists count in practical work in the after-life?

Economists are not meant for theorising only. They have to make observations, draw inferences and frame generalizations. With what object? To understand the present in the light of the past so as to suggest a course of economic uplift for the future. There may be a few noted exceptions here and there but is the general run of students competent to help the progress of Economic Science or undertake the solution of Economic problems? Perhaps not. Why? Because they have been taught the principles but not their applications.

Doctors read books and work in hospitals Engineers read books and do a good deal of practical work before they get the degree. But the economists in India only read the books and get the degree and with what result? They fail in after-life to examine the situations and surroundings, to study geographical peculiarities and to obtain knowledge of the people, their habits and prejudices, their trades and industry, their financial capabilities and their relation with the outside world. If the Indian economists are to play their game well and if they are to make efforts to make their land a better place for themselves and their brothers to live in they should have thorough training in the art of interpreting economic phenomena and of the application of economic laws to the economic problems. Economics is a subject of intense practical importance and the acquisition of mere superficial knowledge by book reading can hardly be satisfactory. The knowledge gained by reading books is by no means to be neglected. But it is the application of the knowledge gained to the stern realities of life which tells and it is here that the training given by the majority of the Universities to students of Eco-

nomics fails. The gap is very big but if it is desired that a day should come when Indian economists should be able to grapple with economic problems of this country so as to deal with them scientifically and lead to results, they should be thoroughly equipped for their work.

The position of economists in India at present cannot be any but poor. The causes for such a state of affairs appear to be imbedded in the sort of education that is prevalent. The students read and read, hardly ever think or make observation or are hardly ever asked to think or observe. What a poor equipment for the huge task before them?

It is therefore submitted that it is now high time to thrash out the whole question of education in Economics. Reading no doubt is the basis of all knowledge but the students' mental proportion should not stop there. Reading should lead to thinking and that should lead to actual investigation of economic facts. Without such a training economists worth the name would be counted on fingers only.

CONFERENCE PROCEEDINGS

ADDRESS OF WELCOME

BY

A.C. Woolner, Esqr., C.I.E., F.A.S.B., M.A.,

The Chairman of the Reception Committee

Vice-Chancellor, Punjab University

Mr. A. C. Woolner, welcoming the Delegates, said that he did not propose to make a long speech. One reason for this was the presence of His Excellency, the Patron. Everybody present was very glad that His Excellency had been able and had been willing to attend this Conference after the dreadful affair that had taken place in that Hall only a few days ago. His Excellency was much better qualified to speak on Economics, both by reason of his own special interest in the subject, and because of his experience as an administrator. Perhaps a linguist might be permitted to recall the fact that Economics meant originally the management of a household and was then extended to the administration of the State. It might fairly be claimed, indeed, that some of the administrators in the Punjab had made valuable contributions to Economics; he was alluding to the work of Mr. Calvert and Mr. Malcolm Darling.

The second reason given for brevity was the speaker's own ignorance of the subject. He feared that he might approach their problems from the wrong angle. For instance, with regard to such a question as the ratio of gold to silver, he would be apt to look at it from the point of view of an Archæologist. It was indeed a continual matter of surprise to him that these two not very useful metals continued to be held in such high estimation. To an archæologist it appeared to be the long survival of an ancient superstition. In ancient times, of course, the matter was

quite simple. Gold was valuable as being a life-giving metal and this quality it owed to the fact that it was obviously the solidified juice of the Sun, silver being similarly the solid juice of the Moon. Consequently the relative value of the two metals depended upon the relative dignity of the Sun and the Moon. This perhaps was the reason why the use of silver was so universal in hot countries where people preferred the rays of the Moon and gold standards were evolved in colder countries where preference was given to the Sun.

The Vice-Chancellor apologised for his ignorance as there was now much better provision for the teaching of Economics at Lahore than there used to be. He referred to the work of Professor Myles regretting that he had been compelled to resign on account of illness and also to the establishment of the Hailey College of Commerce, since the conference last met at Lahore.

The third reason given for not addressing the meeting at length was the consciousness of a certain scepticism with regard to the pronouncement of Economists. They appeared to resemble in some ways the seismologists who can always tell one when there has been a great earthquake, or even a little one, and can explain the causes of this phenomenon but cannot be depended upon to tell us when and where earthquakes will occur. Similarly it seemed to him that Economists, in spite of all their explanations, of what had happened, were very mediocre as prophets. The speaker justified this scepticism by a story about German Marks and how the University was advised to invest Rs. 1,000 in these and ultimately obtained for it a credit of exactly one half-penny. He had, however, no hesitation in extending a warm welcome to the Delegates including the new President, Dr. Pramathanath Banerjea, M.A., D.Sc., the Minto Professor of Economics at the University of Calcutta and the author of many works on Economics. He then requested His Excellency the Patron to inaugurate the Conference and to call upon the President for his address.

INAUGURAL ADDRESS

BY

H. E. Sir Geoffrey Fetzherney de Montmorency,

K.C.I.E., K.C.V.O., C.B.E., I.C.S., M.A.,

Governor of the Punjab and Chancellor, Punjab University.

Mr. President and Gentlemen,

May I, on behalf of the Punjab offer a warm welcome to the Economic Conference. I hope I shall not be accused of provincial prejudice and predilection if I say that the Conference could not have made a wiser choice, when it selected Lahore as the venue of its fourteenth annual Conference. For, I think, Lahore justly prides itself on having an economic atmosphere.

In the Punjab University, History and Economics have long been a favourite combination of subjects—and, if I may say so, a very sensible combination—to study for a degree. This has led to widespread teaching and concentrated study of economics in our colleges. The University itself has now for many years past maintained its own Professor of Economics, and, under his auspices, a school for more advanced economics, including the M.A. degree course in the subject, has also been mobilised.

The Government of the Punjab and its officers have for many years past shown an unusual interest in economics—both in theory and practice; and when I say unusual, I do not imply that it is unusual for administrations to interest themselves in economics—for the subject is clearly and increasingly one of first importance to them—but my meaning is that, I believe, more active and practical interest has been taken in the study of economics here in recent times with the assistance of Government than in other Provinces or, indeed, in the Central Government. We have, as

a Government, tried to stimulate research and enquiry into the domestic economic problems of the Province by the recognition of the Standing Board of Economic Enquiry, which was established in 1919. This Board is financed by Government, and undertakes investigations, directed on technical lines by a committee of experts, into a number of Punjab rural and urban problems; the outcome of its numerous enquiries has resulted in the collection of material which is of the very greatest help in administration, and which, though I speak as a non-technical amateur, I believe to be of considerable scientific value also. This province has also been not only the pioneer, but also the imperial general staff in the great co-operative credit movement and its allied activities in India—work which must be of first importance to students of economics. Many of our Government officials, e.g., Mr. Calvert, Mr. Strickland and Mr. Darling, have published well-known books dealing with the problem of rural indebtedness and its cure and kindred questions, which have deservedly become classics on the subject. To the long list of these works have recently been added two more volumes, which, apart from their interest on the economic side, have a very high degree of literary distinction and charm. I allude to Mr. Trevaskis' "Land of the Five Rivers" published in 1928, and Mr. Darling's "Rusticus Loquitur" published in 1930. Nothing like the latter has been attempted since Arthur Young's travels—a familiar text-book in the days of my youth to the students of political economy and the pre-Napoleonic period of modern history: and with all due reverence to the shades of Arthur Young, I have no hesitation in saying that I have found Mr. Darling much more instructive and arresting. To students of economics, the history of the development of the waste lands of the Punjab by irrigation and colonization must, I feel, also offer a field which repays study. The situation before development was one of special interest. For the most part, Government possessed not only sovereignty, but also, which is not so common, complete ownership over these vast tracts of desert

land. Potentially, the vacant land was wealth; but actually, at the time, it was valueless: it was destitute of population and of that material equipment needed for production, which only capital could bring to it. In order to support a human community with profit to the latter and to give also its return to the State as a national asset, much effort had to be expended on it. The initiative and responsibility of deciding the direction and ways in which this effort and all the different kinds of necessary economic activity should be guided, rested entirely with the Government. Sufficient time has now perhaps passed to form an opinion as to how far that responsibility was wisely discharged, as judged by economic tests. No less interesting is the sister problem of the economic reaction of this development on other parts of the Punjab. Allied to this come a host of other interesting problems, as, for example, the further development of Sind on the same lines. Will this, as some forecast, be of definite prejudice to Indian wheat-growers by depressing the price owing to excess production, or will it, in fact, actually help firmly to establish India as a permanent wheat export market by making it once for all a constant surplus wheat-producing country, instead of, as now, a country which sometimes has and sometimes has not a surplus to export, and is, therefore, an uncertain quantity from the wheat-buyers' point of view? Lastly, few things have interested me more than what I may call the growing economic consciousness of the Punjab landowners and peasants. Many entirely uneducated landowners, in the present slump of prices of agricultural produce, have spoken to me of overproduction in other countries in the world, or of the failure to import manufactured goods possibly reacting on the export of wheat and oilseeds. They may not always assign causes or produce a panacea exactly to fit the circumstances of the case; but, if they fail, here, with all due deference to the experts, may I say they err in good company. For it would be a brave man at the present time, who would assert that he could correctly martial, in their due order of importance,

all the causes which have led to our existing perplexities, or prescribe an infallible cure; but it is, at any rate, a matter of no small interest that our unlettered peasantry are revolving these problems in their minds, and that the lips of those who are, economically speaking, babes and sucklings, are beginning to lisp in terms of economic truths or half truths. I hope I have said enough to make clear that I believe I am on sound ground in claiming an economic atmosphere for the milieu in which your deliberations will take place, and I trust that their issue will provide both profit for yourselves and for a wider public also.

I do not propose to adventure my amateur steps into those regions where the great names among economists apparently so fearlessly tread. I shall not attempt to hazard my views as to whether we are approaching a stage where the output of primary producers must and will be restricted almost as much as those of manufacturers, and whether this situation in turn will cause reactions on the latter, because the former will have no purchasing power left to buy manufactured goods—a vicious circle indeed, apparently only soluble by the method which the Kilkenny cats adopted to terminate their dilemma; but bearing in mind the predominance of our agricultural interests in the Punjab and the smallness of our land holdings, I can safely venture agreement with some observations recently made by the Indian Trade Commissioner in London in his last report, that restriction of production is hardly for us a feasible measure, and we must continue to watch for the silver lining of the cloud and to rely on efforts to secure a heavy yield during favourable seasons, when, let us hope, if they do come, the average production in other countries will be poor or below average. All this makes one sigh for the old simple life when there was less civilization and mankind was less dependent on the interlaced and systematic use of the material resources of the world. Then, if in one jungle the bilberries gave out, it was an easy matter to move on to another, where

the blackberries and the nuts gave promise of abdominal distention.

Meanwhile, the low range of prices for agricultural produce—particularly wheat—must continue to be a source of perplexity and anxiety to me and my administration; and I am ready to go to any quarter for true guidance as regards means to help. I often wish I was circumstanced like Pharaoh, who had, as you have read, the faculty of dreaming dreams admitting of economic interpretations, and had at his elbow a faithful Joseph, surely the first and certainly one of the most reliable of our economic experts, to place the right interpretation upon them. For at the moment, as in Egypt in those days, there is corn—abundant corn—in the Punjab; but there is none to buy; and if I had the prescience to know that seven lean years were coming in the immediate future, my economic duty would be plain and both pleasant and profitable to pursue for all concerned. As it is, I must wait for the day—perhaps never to come in my day—when the solutions of the problems which perplex us to-day, may by the greater perfection of the application of economic study become the commonplaces of to-morrow. It is in this hope that I welcome your delegates to-day, fully ready to gather such crumbs of enlightenment as may fall from your well-stocked economic table.

PRESIDENTIAL ADDRESS

BY

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THE FUTURE OF INDIAN FINANCE

LADIES AND GENTLEMEN,

I thank you for the honour you have done me by electing me President of the Fourteenth Session of the Indian Economic Conference. It would perhaps have been better if you had chosen a worthier person than myself to fill this chair; but as your choice has fallen on me, I must abide by your decision.

A sound financial system is the true basis of a sound system of administration. It is also universally recognised that proper attention to the principles of public finance conduces to the happiness and prosperity of a people. I have, therefore, chosen the Future of Indian Finance as the subject of my address at this Conference. This subject is one of special importance at the present moment in view of the momentous changes which are likely to take place in the Indian constitution in the immediate future.

The system of public finance was extremely ill-balanced—both on the expenditure and the revenue side—in the days of the East India Company. Military expenditure dominated the financial policy of the Company throughout the period of its rule. If we compare the military and marine charges of the country in the last normal year of the Company's rule with

those in the year of acquisition of the *Diwani*, we find that the increase was more than eight-fold. These charges amounted to no less than forty per cent of the total net revenue of the country in 1856-57. The expenses of the army were so large because they were incurred for the purpose not so much of defence as of aggression. As a matter of fact, all the wars of the Company, by which territories were acquired in India as well as in some of the neighbouring countries, were financed out of Indian revenues.

The expenses of civil administration also grew by leaps and bounds with the lapse of years. This was due, in the main, to the substitution of the European for the Indian element in the public services. During the first few years of the Company's rule, the work of administration was conducted chiefly by means of Indian agency. Gradually, however, Indian officers were replaced by Europeans. The policy of Europeanisation was carried out with the utmost vigour until, in the second decade of the nineteenth century, none but the lowest offices were held by Indians. The cost of giving effect to this policy was, however, enormous, and the employment of Indians was urged by experienced administrators on financial grounds. When Lord William Bentinck was faced with the problem of uniting "economy and despatch with efficiency and integrity," the solution was found in a somewhat larger employment of Indians. The Charter Act of 1833 provided that no Indian was, by reason only of his religion, place of birth, descent, colour, or any of them, to be disabled from holding any place, office, or employment under the Company. But, although a larger proportion of Indians was admitted to the subordinate services, the provision of the Act remained a dead letter so far as the higher offices were concerned.

Another large item of expenditure in these days consisted of the Home Charges. In the earlier years of the Company's rule, a considerable portion of India's wealth was every year transferred to England by way of investment. Such investments ceased in

1814; but, meanwhile, other expenses had come into existence. The Home Charges were comparatively small in the beginning, but with the progressive Europeanisation of all the public services in India, the gradual increase in the number of European troops sent to this country, and the frequent additions to the debt held *in England, these charges tended continually to grow.* In the last year of the Company's rule, the Home Charges were over 6 millions sterling. The harmful consequences to India of this annual transfer of her resources did not fail to attract the attention of eminent British administrators. Sir Charles Trevelyan wrote: "£5,000,000 sterling a year is subtracted from the wealth of India and added to the wealth of England, which is the most serious injury which India suffers from its connexion with England." In view of this injury, some eminent Englishmen suggested that a portion of the burden of Home Charges should be borne by Britain. But nothing of the sort was done. Sir George Wingate observed in 1859 with a feeling of regret that Britain's fair share, represented by the degree in which British interests had decided Indian policy, had not been paid, and urged a more equitable adjustment in future of India's financial relations with England.

On the other hand, the expenditure incurred by the Company for important purposes like education and sanitation was exceedingly small. During the first half of its period of rule, the Company was too much preoccupied with other things to be able to devote any attention to the question of instruction of the people. In 1793, when the renewal of the Company's Charter was under consideration, Wilberforce proposed to add two clauses to the Bill to provide for the education of Indians. But the Court of Proprietors opposed such addition on the ground that, if education was imparted to the people, India would be lost. The clauses were, therefore, withdrawn. It was not till 1813 that Parliament directed that a small sum should be set apart, out of the revenues of India, for the promotion of learning. By gradual steps some

provision, though very inadequate, was made for the higher education of a limited number of persons. But little was done to provide primary education to the bulk of the people. Towards the close of the Company's rule, the total educational expenditure of the Government fell considerably short of 1 per cent of the net revenue of the country. Sanitation and medical relief received very little attention at the hands of the Company, the total amount spent in 1857-58 being only 21 lakhs of rupees.

On the revenue side, we find that land revenue was the mainstay of Government finance. Towards the close of the Company's administration, nearly two-thirds of the State income in India was obtained from the land. The assessments were, in general, excessive, and the revenue demand pressed very heavily upon the people. Next to land revenue, the most important source of income of the Government during the greater part of the Company's rule was the salt tax. Levied as it was on one of the first necessaries of life, it was felt as a cruel and oppressive burden by the poor. Another source of State income was the opium monopoly which, originally adopted as a resource for persons in office, ultimately occupied the second place in the revenue system of the country. *Abkari*, or the excise on alcoholic liquors and intoxicating drugs, was another tainted resource of the Company. Besides the main heads of revenue, various imposts of a comparatively unimportant character were levied in different parts of the country. These taxes were of a vexatious and oppressive nature, and many of them were ultimately abolished. Though this was a move in the right direction, it can hardly be denied that the tax-system of the East India Company was extremely partial in incidence. While the poor cultivator and the struggling artisan were burdened with heavy taxes, the rich foreign merchant and the well-to-do Indian moneylender contributed little to the resources of the State.

This lack of balance in the financial system continued under the direct administration of the Crown. Military expenditure

increased largely during the Mutiny. Though attempts were subsequently made on several occasions to reduce this expenditure, the general tendency was in the upward direction, until in 1920-21, the last year of the old regime, the net military charges stood at Rs. 75·77 crores. This however, was an abnormal year, as there were hostilities with Afghanistan and operations on the frontier. It should also be noted that a large part of the increased expenditure was the direct outcome of the European War of 1914-18, being attributable to various causes, such as a general rise in prices, the enhanced rates of pay granted to all ranks, improvements in the standard of comfort of the troops, additions to and improvements in equipment, and a large increase in non-effective charges.

During this period of a little over half a century, the police charges grew at a rapid pace, and in 1920-21 they amounted to nearly Rs. 12 crores. The increase would probably have been justified if, as the result of it, the police had become better equipped to render service to the community. But this was not the case, the reason being that the police force was maintained not so much for affording security to the people as for lending support to British rule in India. The expenses of general administration showed a gradual rise during this period, while the Home Charges rose to an enormous amount. The growth of State expenditure on education, on the other hand, was slow and wholly incommensurate with the needs of the situation. Year after year, decade after decade, Indian publicists urged that the question of popular education should be taken up in right earnest, but little heed was paid to their appeals. When, in 1911, G. K. Gokhale brought forward his Primary Education Bill, it was opposed by the Government on the ground of paucity of funds. In 1920-21, the total State expenditure in India on education was 7·21 crores. The subject of sanitation received very niggardly treatment, the total expenditure under this head in a country where the average death-rate was nearly 31 per thousand, and in some places as high as 60 per thousand, was only a little over a crore of rupees. The net

expenses incurred for giving medical relief to 247 millions of persons amounted to only $2\frac{1}{4}$ crores of rupees.

Agriculture gives employment to nearly three-fourths of the entire population of the country, and its improvement ought to be one of the primary duties of the State in India, while co-operative credit is the chief means of rescuing the agriculturist from the clutches of the rapacious moneylender. But the total amount which the Government was able to spare for these two objects was considerably less than a crore and a half rupees. Although industrial development was one of the principal needs of the country, practically nothing was spent on the subject. The only item of social service expenditure was the provision of a crore and a half rupees for famine relief and insurance. No moneys were provided for affording relief to the poor or aged persons or for mitigating the distress of the unemployed. But what would strike an impartial observer as strange was that a Government, which was unable to meet its essential obligations, did not hesitate to take in hand a costly scheme like the building of New Delhi—a scheme which nobody in India had wanted and which was not intended to benefit any section of the community. This failure of the Government to grapple properly with the financial problem can be traced only to their lack of touch with the sentiments and desires of the people and a callous disregard of their vital interests.

Coming to the revenue aspect of the financial system we find that, for a long time, little advance was made towards an equitable system of taxation. The bulk of the burden of taxation fell upon the poorer classes, while the richer people contributed much less than their proper share to the expenses of public administration. The stress of the European War, however, made a great change in the situation. The development of taxes on income and the imposition of heavy import duties on luxuries helped in some measure to make the balance more even as between the different classes of the community.

Some feeble attempts have been made since the introduction

of the Montagu-Chelmsford Reforms to remove a few of the more glaring defects of the financial system. The Reforms were accompanied by a separation of provincial from central finance. At the centre military expenditure has now been reduced to Rs. 55·1 crores a year. Full effect has not, however, been yet given to the recommendations of the Retrenchment Committee of 1922-23. But, on the other hand, the General Administration charges have grown enormously both at the centre and in the provinces, the total amounting in 1928-29 to 13·37 crores. A portion of this increase may be accounted for by the additional expense necessitated by the expansion of the legislatures and the appointment of ministers and their staffs. But a very large part of the increase has been due to enhancements in the salaries of the members of the higher services granted on the recommendation of the Lee Commission. The charges of collection which include a part of the expenses of civil administration have also considerably increased. Further, the effect of the decisions taken on the Lee Commission Report has been felt in an augmentation of the Home Charges. There has been a huge capital outlay on New Delhi. The deficits in the central budgets have added considerably to the unproductive debt of the country, while the blundering currency policy of the Government has caused enormous losses to the Indian Exchequer and led to a depletion of the reserves.

In the provinces the picture seems at first sight to be less gloomy. Taking into account the figures for the year 1928-29, the last year for which complete statistics are available, we find that the total provincial expenditure on Education has amounted to nearly Rs. 12 crores, while the Medical and Public Health charges have amounted to about Rs. 3½ crores and Rs. 1½ crores respectively. Slight increases have also occurred in the expenditure shown under the heads 'Agriculture' and 'Industries.' But these improvements have fallen far short of the requirements of the country. It should also be noted that progress in the nation-building departments has not been at a uniform pace in all the

provinces, and that in some of the provinces there has been practically no progress at all. For instance, we find that the expenditure on education increased between the years 1920-21 and 1928-29 by the following amounts: Madras, Rs. 128 lakhs; Punjab, Rs. 87 lakhs; Burma, Rs. 79 lakhs; United Provinces, Rs. 78 lakhs; Bombay, Rs. 56 lakhs; Bengal, Rs. 35 lakhs; Bihar and Orissa, Rs. 33 lakhs; Central Provinces and Berar, Rs. 15 lakhs; Assam, Rs. 11 lakhs. The total expenditure in the transferred departments charged to the revenue account in each of the Governors' Provinces in the same year was as follows: Madras, Rs. 6·51 crores Punjab, Rs. 5·74 crores; Burma, Rs. 5·52 crores; Bombay, Rs. 5·30 crores; United Provinces, Rs. 3·87 crores; Bengal, Rs. 3·80 crores; Bihar and Orissa, Rs. 2·31 crores; Assam, Rs. 85 lakhs; Central Provinces, Rs. 40 lakhs.

These differences have been due to the fact that the distribution of resources which accompanied the introduction of the Montagu-Chelmsford Reforms was unequal and inequitable. The great mistake committed by the authors of the financial settlement was that, in the matter of allocation of funds, they did not proceed upon any definite basis. They said that they had in view the actual expenditures of the different provinces. This was not a safe or just criterion; but even this criterion was considered in a shape which was open to serious objection. Normal scales of expenditure were calculated with reference to an abnormal year, and the future expenditures needed to give effect to the most essential requirements of the different provinces were not estimated at all. But even this insufficient and unsafe criterion of expenditure was not adhered to; for had this been done, the disproportions in the allocated revenues of the different provinces would not have been so great as they actually turned out to be. Another mistake was that a uniform treatment was sought to be accorded to the provinces by allotting to all of them the same heads of revenue. But it was forgotten for the moment that the yield of each of these resources varied from province to province. Thus

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the attempt to secure artificial symmetry diverted the attention of the authorities from the real problem, namely, the need for securing substantial equality.

The expedient of levying provincial contributions tended for the moment to hide in some degree the real disparities in the financial positions of the different provinces. But the inequalities in the distribution of resources appeared in their true complexion after the abolition of the contributions. In the budget estimates for 1929-30, the revenues of the different provinces were shown as follows: Madras, Rs. 18·07 crores; Bombay, Rs. 14·41 crores; United Provinces, Rs. 13·07 crores; Punjab, Rs. 12·54 crores; Bengal, Rs. 11·11 crores; Burma, Rs. 10·59 crores; Bihar and Orissa, Rs. 6·19 crores; Central Provinces, Rs. 5·55 crores; Assam, Rs. 2·79 crores. The disproportions appear even more striking when we consider the revenue per head of the population. It is no wonder, therefore, that the expenditure per head of the population was as follows: Burma, Rs. 8·6; Bombay, Rs. 8·3; Madras, Rs. 4·2; Punjab, Rs. 5·5; Assam, Rs. 3·9; Central Provinces, Rs. 3·8; United Provinces, Rs. 2·7; Bengal, Rs. 2·5; Bihar and Orissa, Rs. 1·8. Comment is hardly needed to show how unjust and arbitrary is the present system of provincial finance in India.

But the unequal distribution of resources as between the provinces is not the only defect of the financial settlement with which the name of Lord Meston is associated. The failure to give adequate attention to the elasticities of the various sources of revenue has led to very unsatisfactory results. While the more elastic resources have been left in the hands of the Central Government, the comparatively unexpanding sources of income have been made over to the provinces. There is another objectionable feature in this system of allocation. The fact that central and provincial taxation affects different classes of the population tends not only to create a separation between the interests of the Government of India and the provinces, but also to hinder the industrial progress of the country. These defects can be traced in part to a failure

to appreciate the respective needs of the Central Government and the Provincial Governments and in part to an insistence on the principle of a financial clean-cut. In regard to the former, it seems strange that it did not strike the authors of the settlement that the classification of administrative subjects made under the Devolution Rules was such that the needs of the Central Government might be expected to decrease, while ever-increasing resources would be required for maintaining and developing the provincial subjects. As for the principle of a financial clean-cut, whatever might be its theoretical merit, the assumption of its absolute necessity in a scheme of federal finance was not founded on the experience of other countries. Possibly, there was a confusion in the minds of the framers of the scheme in regard to two distinct ideas, namely, separation of resources and separation of heads of revenue. While the former is essential in a scheme of provincial autonomy, the latter is not.

Time has now come when the anomalies and inconsistencies of the existing system should disappear and the finances of the entire country placed on a sound and satisfactory footing. The most essential need of the moment is the provision of adequate funds for the nation-building services. For this purpose, a readjustment of financial relations will be necessary, and such readjustment will involve a re-allocation of the financial resources of the country between the Central and Provincial Governments. A proper solution of the first problem will require a careful consideration of the relative needs of the Government of India and of the Provincial Administrations. The most important functions to be entrusted to the Central Government under the coming reforms will probably be: Defence, legislation of an all-India character, maintenance of the main arteries of communication, management of coinage, currency and public debt, and co-ordination of many of the activities under the control of the Provincial Governments. These functions are not likely to entail ever-increasing expenditure. On the contrary, considerable retrenchment is possible in some of

the departments. The needs of the provinces, however, are almost unlimited. The introduction of compulsory primary education ought not to be delayed any longer. Some parts of the country are notoriously unhealthy, and preventive as well as remedial measures are urgently needed to protect the people from the ravages of various kinds of disease. Agriculture is the mainstay of the people of the country; but the methods of cultivation are antiquated, and as a consequence population is pressing heavily upon the soil. The development of manufacturing industries is one of the crying needs of the country. All these subjects require the assistance of the Government. It is also time that the Government took in hand questions of social reform like old age pensions, relief of poverty, and unemployment insurance.

Thus it is clear that, if the Provincial Governments are to fulfil their obligations properly, they will have to be placed in command of resources which will not only be substantial in the beginning but expansive in future. Sir Walter Layton estimates that the provinces will require an augmentation of their resources by 40 to 50 crores in the course of the next ten years. This estimate does not err on the side of extravagance. Funds may be available in two ways, first, by re-allocating existing resources, and secondly, by imposing fresh taxes. For the purpose of a re-allocation we must consider whether retrenchment is possible and desirable in any of the departments under the control of the Central Government. In this connexion military expenditure claims our attention first. The net charges under the head 'defence' absorb nearly two-thirds of the net revenue of the Central Government and about one-third of the total revenue of the country. This is too heavy a burden for the country to be able to bear. It should be borne in mind that there is hardly any country in the world which spends so large a proportion of its income on its army as India does. There is also another fact which is worth noting. Defence expenditure has increased in a higher proportion in India than in other parts of the British

Empire. As Mr. Jacobson points out, the defence expenditure of India has increased since 1913, the pre-war year, by 100 per cent, while that of Great Britain has increased by 48·9 per cent; and that of the Dominions by 33 per cent. The Indian Retrenchment Committee of 1922-23 suggested the reduction of the military budget to a figure not exceeding Rs. 50 crores. Even this sum was regarded by the Committee as more than what the tax-payer in India should be called upon to pay, and they thought that it would be desirable to keep "a strict eye on military expenditure with a view to its further reduction."

In most countries, the strength of the army is determined by the consideration of its adequacy for the purpose of defence. But in India the situation is different. The Army in India is not a national army. Its very name implies that it is, to a large extent at least, an army of occupation. This fact has been admitted by many British statesmen and administrators in the past. It is also proved by the ratio in which the British portion of the army is maintained relatively to the Indian. On the eve of the Sepoy Mutiny the proportionate strength of the British force was small; but it was increased after the Mutiny, the object being to prevent any further attempt on the part of the people to overthrow British rule. India has so far been compelled to bear the cost of being held in subjection, but now that the country is on the road to freedom, the much-needed relief should no longer be withheld. It would not, therefore, be unreasonable to urge that the strength of the British force be reduced by one-half. In case, however, it be thought undesirable to bring about the change too suddenly, an arrangement might be made under which there would be an immediate reduction of 10,000 British officers and soldiers and further reductions would take place at the rate of 2,000 men a year during the next ten years. It may be argued that such reduction in the strength of the British force will imperil the safety of the country, but past experience shows that there is no ground for such apprehension. At the commencement of the European

War, of the British establishment in India, 7 regiments of British cavalry out of 9, 44 British battalions of infantry out of 52 and 43 batteries of Royal Artillery out of 56 were sent overseas. In return for these troops, India received many months after the despatch some Territorials who were unfit for immediate employment. For the space of some weeks, before the arrival of the Territorials, the British garrison in India consisted only of about 15,000 men. If such reduction was possible in the war crisis, there is no reason why a smaller reduction cannot be regarded as possible at a time when the prospects of world peace are bright.

Another reason why the British force in India has been kept in its present strength is that a large portion of it is required, to use the words of the Government of India, "to maintain the supremacy of British power in the East." Expenditure of this sort is evidently a British interest, and many eminent British statesmen have urged in the past that the cost of the Imperial reserve should be defrayed out of the British Exchequer. A Minority of the Welby Commission on Indian Expenditure considered it fair that the revenues of India should be relieved of the entire charges of 20,000 British soldiers and that "they should be treated as part of the reserve forces of the Eastern portion of the British Empire generally, and borne in future upon the Army Estimates in that capacity." Twenty years later, it was observed in *India's Contribution to the Great War*, a book published by authority of the Government of India: "It is because India has for many years past maintained a large army, that she was able, at a critical moment, to despatch a large and fully equipped force to the Western front to help in stemming the tide of invasion of the territory of our allies. The army in India proved itself once more to be a great Imperial asset." Equity demands that the suggestion of the Minority of the Welby Commission be now carried into effect, and a suitable contribution made by Britain to India on this account. Some further savings may be obtained as a consequence of the Indianisation of

the officers' ranks in the Indian portion of the army. The administrative charges in the military department have increased enormously in recent years, and if a policy of economy is now observed, a considerable sum of money may be saved every year on this account. If the suggestions made here are accepted, a substantial retrenchment will result in military expenditure. Military finance is very largely a question of policy, and if the best interests of the people are kept in view, it will not be impossible to adjust it in such a way as to secure an immediate saving of 10 crores of rupees and further savings amounting in the aggregate to another 10 crores in the course of the next ten years.

Some retrenchment may also be possible under each of the four heads, namely, Direct Demands on the Revenues, Civil Administration, Civil Works, and Miscellaneous. The charges of collection are at present very high, and may easily be reduced to an appreciable extent. The Civil Administration charges are so enormous because the salaries of members of the higher services have been fixed on an extravagant scale. As a considerable fall in prices has now occurred, the salary scales should be revised. If it be found impossible to reduce the salaries of European officers owing to political reasons, there is no reason why a reduction should not be effected in the salaries of Indian public servants. If a lower standard of emoluments is fixed for Indians, the number of posts held by Europeans will steadily diminish, and as Indianisation will proceed at an accelerated speed, greater and still greater economies will arise. Retrenchment under this head will also help automatically to reduce the pension and superannuation charges shown under the head 'Miscellaneous.' A great deal of waste now takes place in the Civil Works Department of the Government, and a strict method of control is sure to result in considerable savings. On the other hand, it is not improbable that the Central Government will under the new constitution assume extended functions. In such circumstances, larger funds will be needed by the Government of India. If a saving of two crores

of rupees is obtained by means of retrenchment on the civil side of the budget in the course of the next ten years, one-half of the amount may be set apart for meeting the additional cost involved in the performance of the new duties, the other half being made available to the provinces.

A substantial reduction may be expected in the expenditure under the head 'Debt Services.' The policy of debt redemption which is now being steadily pursued by the Government of India will tend gradually to reduce the interest charges in future. But a substantial reduction may ensue immediately if Britain agrees to take over that portion of the debt which was incurred for Imperial purposes. The Afghan and Burmese Wars, for instance, were waged not in the interests of India but in those of the Empire. The charges were, however, thrown upon India, imposing upon her a public debt which she would not otherwise have incurred. If this wrong be righted now, the relief will be keenly appreciated.

In addition to the sums obtained from retrenchment, a considerable surplus is likely to accrue to the central budget from the normal expansion of its revenues. A portion of this sum may be retained by the Government of India for its own purposes, and the remainder made available for provincial objects. If the proposals made in the course of this address are accepted, the Central Government will be in a position to give up to the provinces resources to the extent of 10 to 12 crores of rupees immediately, and this amount will rise to no less than 20 to 25 crores of rupees in the course of the next decade. The transfer should be made not by means of grants, but by a re-allocation of existing revenues. The suggestions made by Sir Walter Layton in this connexion deserve to be carefully considered. His first proposal is that the provinces should make over commercial stamps to the Government of India and that the latter should reduce the import duty on foreign liquor to the standard luxury rate of 30 per cent, allowing the Provincial Governments to impose excise duties on such liquor to

the extent of the amount of duty reduced. This proposal is a retrograde one. Commercial stamps are a fairly expanding source of revenue, as the yield tends to grow with the extension of trade and commerce. On the other hand, the consumption of liquor is likely to diminish in future, and naturally the yield from this source will tend steadily to decrease. The reason assigned for the suggestion is that conflicts of interest between the Central and Provincial Governments should be avoided. But this object can be attained by the provinces making over to the Government of India the excise duty now levied on locally-manufactured foreign liquor in exchange for the transfer to the Provincial Governments of some source of central revenue of the same amount. An argument in favour of Sir Walter Layton's proposal is that the revenue should as far as possible be assigned to the authority which controls the rates of duty. There is a great deal of force in this argument. But the objection can be met by adopting an arrangement under which legislation relating to commercial stamps should remain central, subject to the provision that no alterations in the rates should take place unless decided at a conference of the financial representatives of the different provinces. The proposal of Sir Walter Layton, if accepted, will weaken the financial positions of the provinces. The exchange of duties on commercial stamps for a portion of the tax on alcoholic liquors should not, therefore, be insisted upon.

Sir Walter Layton's second proposal is that one-half of the proceeds of the income-tax on personal incomes should be made over to the provinces. Evidently, he does not attach any value to the objections which have so far been urged against income-tax being made a provincial source of revenue. Nor does he regard a system of divided heads as an evil to be shunned at all costs. But looked at from the point of view of the financial needs of the provinces, Sir Walter's proposal does not go far enough, for the share of taxes on income which he proposes to make over to the provinces is considerably smaller than the share he wishes

to retain in the hands of the Central Government. He admits that, theoretically, there is no reason why the provinces should not also be given a portion of the super-tax; but he does not include it in his scheme because he is afraid that the Government of India cannot at present make the financial sacrifice which it would involve. There would, however, be no ground for such apprehension if the retrenchment suggested in this address is carried out in the Government of India's expenditure. That a cruel injustice has been done to the provinces in depriving them of their legitimate resources will be clear from a glance at the income-tax returns. The total revenues obtained by the Central Government from the different provinces in the shape of taxes on income during the eight years 1921-22 to 1928-29 were: Bengal, Rs. 43·14 crores; Bombay, Rs. 37·58 crores; Burma, Rs. 13·75 crores; Madras, Rs. 11 crores; United Provinces, Rs. 6·89 crores; Punjab, Rs. 5·10 crores; Bihar and Orissa, Rs. 3·95 crores; Central Provinces and Berar, Rs. 3·46 crores; Assam, Rs. 1·13 crores. The total amounts received by the different Provinces during the same period under Devolution Rule 15 were: Bengal, Rs. 95 thousands; Bombay, Rs. 17·32 lakhs; Burma, Rs. 37·50 lakhs; Madras, Rs. 36·70 lakhs; United Provinces, Rs. 3·56 lakhs; Punjab, Rs. 27·82 lakhs; Bihar and Orissa, Rs. 22·13 lakhs; Central Provinces, Rs. 16·59 lakhs; Assam, Rs. 33·33 lakhs. Thus out of the total sum of nearly Rs. 140 crores collected by means of the income- and super-taxes the Provincial Governments were benefited to the extent only of Rs. 5⅓ crores, while the whole of the remainder went to the Central Government.

The wrong thus inflicted will have to be righted now, and in order to do so, a large proportion of the total proceeds of the taxes on income should be made over to the provinces. It may be mentioned in this connexion that in every federation taxes on income form an important source of revenue for the component States. If the provincial share is fixed at one-half of the proceeds of the ordinary income-tax on personal incomes, as is suggested by Sir

Walter Layton, the provinces will receive only about 4 crores of rupees a year. This will not meet the demands of the situation. Therefore, one-half of the total proceeds of both the income-tax and the super-tax should be surrendered to the provinces, the distribution being made on the principle of origin. This may give rise to some practical difficulties, but there is no reason to assume that such difficulties will be insuperable. In case, however, it should be decided to adopt the principle of domicile, one-half of the proceeds of the super-tax derived from personal incomes, as well as those derived from the income-tax, should be made over to the provinces. There is another matter which should be taken into consideration. Allocation on the basis of domicile has certain undoubted advantages, but it is not wholly satisfactory from the point of view of equity. Origin offers a more equitable basis, and however great the practical difficulties may be, this principle should not be ignored altogether. The Taxation Enquiry Committee suggest that partial recognition be accorded to the principle of origin by giving a small share of the corporation profits tax to the provinces. This recommendation is of a very halting character, and in order to do justice to the provinces, the whole of the proceeds of this tax should be surrendered to them. This will benefit all the provinces, particularly a poor province like Bihar and Orissa. In calculating the shares of the different provinces in the proceeds of this tax, regard must be had not merely to the location of the headquarters of business enterprises but also to the site of actual operations. It may not be possible to attain absolute accuracy in the matter of distribution, but it will not be difficult to form estimates which will be approximately correct.

Sir Walter Layton's third proposal is that the proceeds of the salt duty should be transferred to the provinces by gradual steps. I do not know whether a feeling of generosity or a sense of expediency has prompted this proposal. But what is to be apprehended is that it would be difficult to retain the salt-tax at

all. And even if this be possible, it is certain that the rate of duty will have to be reduced, and probably the manufacture of salt in the coastal tracts for individual consumption will have to be exempted from taxation. Thus the maximum revenue which may be expected from this source is not likely to exceed one-half of its present yield.

The transfer of the revenues mentioned above to the provinces will not give them resources which can be regarded as sufficient to enable them to start on their new career in a spirit of security and optimism. Sir Walter Layton, therefore, suggests the imposition of fresh taxation. This, however, will be a dangerous step, for nothing is so likely to jeopardise the chances of success of the new constitution as the levy of additional taxes at the very outset. It is true that fresh resources will have ultimately to be found if the Provincial Governments are to fulfil their obligations properly. But the new ministers in the provinces must be given time to win the confidence of their legislatures and constituencies before they are compelled to place further financial burdens on the people. The legislatures and the constituencies must also be made to feel that the existing resources are being applied in a proper and well-balanced manner. When the ministers will be in a position to convince the people that all avoidable expenditure has been retrenched and to assure them that the proceeds of new taxes will be spent for their benefit, their reluctance to bear further burdens will be overcome. A period of at least five years must elapse before the atmosphere will be favourable for the levy of fresh taxation. Meantime, the Provincial Governments will have to be supplied with adequate resources, which can only be obtained from retrenchments in the central budget.

It will thus be necessary for the Government of India to part with some more resources than have been suggested by Sir Walter Layton. In this connexion, export duties deserve our consideration first. These duties stand on a footing somewhat different

from import duties, for, in this case, the question of interprovincial barriers does not arise and it is not altogether impossible to trace the origin. Export duties are now levied on only three articles, but it is not impossible that they will be levied in future on a few others. The proceeds of the duty on jute are obtained almost entirely from Bengal, and this province has always demanded that the net collection at the ports of Calcutta and Chittagong be made over to it. Two objections are generally urged against such a proposal. The first is that the burden of the duty does not fall on the people of the province. But, as the Taxation Enquiry Committee point out, "there exists a possibility that, in certain conditions of trade, a portion of the export duty may fall on the producer." Even if it be granted, for the sake of argument, that the whole of the duty falls on the foreign consumer, the claim of the people of the province to the productivity of a valuable article cannot be lightly brushed aside. The second objection relates to administrative convenience. This can be met by providing that the tax should continue to be administered by the Government of India, but that one-half of the proceeds may be made over to the province. As a financial clean-cut will be found impossible to maintain in the coming re-adjustments, there ought to be no objection to a division of the proceeds. But should any objection be raised to such division, an arrangement might be made under which the export duty would be reduced to one-half of its present amount, the Provincial Government being allowed to levy an excise duty of such an amount as would yield about half the proceeds of the existing tax. A possible objection to such an arrangement might be that it would be undesirable for the Imperial Government as well as the Provincial Government to be both interested in an export duty, since such interest might render it "doubly difficult for the trade concerned to secure amelioration when it is due." This objection does not seem to be a very serious one, for there is no reason to think that the Provincial Government will be less watchful of the effects of the tax than the

Central Government. On the contrary, the circumstance that the Central Government is interested only in the proceeds of the tax and not in the welfare of jute-growers exposes it to the temptation of levying, in times of financial difficulty, unduly high rates of duty which may threaten the very existence of the industry. If the province be given an interest in the jute tax, the risk would be minimised, for the Provincial Government would be sure to raise its voice of protest against the action of the Central Government in the interest of its own revenues, if for no other consideration.

It is worthy of note in this connexion that the jute tax has an intimate relation to agriculture as well as to industry, and as provincial subjects both of them engage the attention of the Government of Bengal, not of the Government of India. A recent incident has helped to make the position more clear. In view of the acute distress of the jute-growers, the Acting Finance Member of the Government of India was, a short while ago, approached with an appeal for financial assistance, but he gave the reply that it was not the concern of the Central Government. So it comes to this that, while the benefit of the growth of jute goes to the Government of India, the duty of assisting the development of the article and of giving relief to the people concerned in it in times of difficulty devolves on the Government of Bengal. This is surely an unnatural position. It should also be remembered that the production of jute affects the sanitation of the province, and the expenditure needed to overcome its evil effects has to be met out of provincial funds Equity demands, therefore, that a substantial portion of the proceeds of this tax should belong to the province.

The proceeds of the export duty on rice are derived mainly from Burma and in smaller amounts from Madras, Bengal and Bombay. As in the case of jute, its origin can be traced with a considerable degree of accuracy. The proceeds of this duty should be divided equally between the centre and the provinces.

The revenue derived from the duty on hides and skins is not large. If duties on oilseeds are levied in future, which seems not unlikely, one-half of the proceeds should be distributed to the provinces of origin. The total net receipts from export duties may be expected to amount to about 5 crores. If one-half of this sum be transferred to the provinces, they will gain about 2½ crores. The administration of export duties will, of course, continue in the hands of the Central Government. The proceeds of import duties will belong entirely to the Central Government at the commencement of the new system. But, as Sir Walter Layton suggests, when a further surplus accrues to the central budget, a definite and increasing proportion of customs revenue should be available to the provinces.

While the resources thus transferred from the centre will help to give the provinces a good start on their new career, these will not be sufficient for purposes of adequate development. Fresh resources will before long be needed to supplement the proceeds of original sources of revenue. Although the responsibility for the levy of new taxation will rest with the popular ministers, a discussion of the legitimate forms of such taxation will perhaps be found useful. Direct taxes are, from the point of view of pure theory, more equitable than indirect taxes. But in the existing circumstances of the country it will be an exceedingly difficult task to raise a substantial revenue by means of direct taxation alone. Therefore, a judicious combination of direct and indirect taxes will have to be made in any scheme of further taxation.

The most eligible of all fresh taxes will be the extension of the income-tax to agricultural incomes. The existing exemption of agricultural incomes has a history behind it. When an income-tax was levied for the first time in India in the year 1860, agricultural incomes were included. Agricultural incomes again formed part of the incomes assessed to the taxes levied during the years 1869 to 1873. During

the years 1877—79, it was found necessary to impose additional taxation in order to provide funds for the prevention and relief of famine. Two different categories of taxation were levied on this occasion, namely, cesses on land and licence taxes on trades and professions. When, in 1886, the Government of India was faced with a difficult financial situation, the licence taxes were transformed into an income-tax. Thus, as this income-tax was based on the licence-taxes which did not fall on the landed classes, these classes were exempted from the operation of the Income-tax Act of 1886. Agricultural incomes had already been subjected to additional cesses, and the real object which the framers of the Act had in view in exempting such incomes was to make the burden equal on the different classes of the population. These cesses, subsequently, were either removed or made over to local bodies. On grounds of equity, therefore, the exemption cannot any longer be defended. Besides, those persons who derive substantial incomes from the land are mere intermediaries, and they are able to bear the burden of this tax. The yield of this tax is estimated at 5 crores. The whole of the revenue should belong to the provinces.

Death duties are an eminently desirable form of taxation. They have become an important feature of the tax-systems of most of the advanced countries of the world. Although there are practical difficulties in India in the way of imposition of these taxes, such difficulties need not be regarded as insuperable. If necessary, the administration of these duties may be made central, but the proceeds should be made over to the provinces according to origin. The yield of these duties is likely to vary from year to year, and it is not possible to estimate such yield with any degree of accuracy. But there is no doubt that, even if the tax is levied at moderate rates, its proceeds will be substantial. An average amount of Rs. 5 crores a year may be assumed as a hypothetical figure of the yield of death duties.

An excise duty on matches would be a productive source of revenue. But Sir Walter Layton's suggestion that the rate of the

excise duty should be the same as the rate of the present import duty cannot be supported. A high rate of duty may imperil the very existence of the match factories. A cautious policy would, therefore, have to be adopted in the matter. If the excise duty is fixed at half the rate of the import duty, an annual sum of about a crore and a half rupees may be obtained. There are practical difficulties in the way of taxing tobacco manufactured in a crude form, and serious objections may be also urged in regard to the nature and incidence of such a tax. Tobacco has by long habit become one of the conventional necessaries for the masses of the people, and any tax on the article is sure to be felt by them as an unjustifiable burden. But an excise on cigars, cigarettes and pipe-tobacco manufactured in factories is both practicable and desirable. The rate of duty, however, must not be too high A revenue of 2 crores rising to 3 crores in the course of the next ten years may be expected from this source.

Sir Walter Layton's proposal to levy a terminal tax for provincial purposes at every railway station may be supported in the special circumstances of India at the present moment, where the field of direct taxation is far more restricted than in other countries. The chief merits of such a tax are that it is productive and easily collected. But a terminal tax has so far been regarded as a resource for local bodies, and it would be a real hardship on these bodies if the Provincial Governments were now allowed to encroach upon any of their limited sources of revenue. The way out of the difficulty may, however, be found in a division of the proceeds of terminal taxes between the Provincial Government and the local bodies within whose jurisdiction they arise. If the proceeds of the taxes are divided in equal proportions between the Provincial Government and the local bodies, the provincial portion of the yield may be estimated at 5 crores of rupees.

Sir Walter Layton suggests that the proceeds of the salt duty and of the excises on matches and tobacco should be paid

into a separate fund, to be called the Provincial Fund. The idea is a good one, but care should be taken to guard against certain difficulties which are likely to arise. The interests of the different provinces are not always identical, and the decisions of the majority may, in some cases, prove detrimental to the interest of the minority. Sir Walter has devoted much thought to the question of distribution of this fund and has come to the conclusion that population is the only fair basis. A combination of three tests, namely, needs, origin, and population would perhaps have furnished the most equitable basis. But as needs are exceedingly difficult to estimate, and as origin is not easy to find out without enquiries of a very complex and searching character, population may be taken as constituting, on the whole, the best available basis.

There is one weak point in the scheme of Sir Walter Layton, to which reference is made in the Despatch of the Government of India. It is that the application of the scheme to individual provinces has not been worked out in detail. This criticism is fully justified. In fact, if the details of Sir Walter's Scheme were worked out in their application to the provinces, it would appear that, although there would be substantial improvements in the financial positions of all the provinces, considerable inequalities would still be found to exist as between one province and another. If, on the other hand, the scheme outlined here be accepted, the different provinces would be placed on a footing of substantial equality. Justice should be the main object to be kept in view in any future readjustment of finances. Equality, not uniformity, should be our motto. If uniformity can be attained, so much the better; but in no circumstances should the principle of equity be sacrificed to meet the requirements of uniformity.

The scheme outlined above should be given effect to without any avoidable delay. Sir Walter rightly insists that the allocation of income-tax should be begun as early as possible. He further suggests that, in order to give the provinces a definite

idea of their prospective receipts, a time-table should be drawn up under which each head of revenue should be transferred according to a definite schedule. This suggestion is a very reasonable one; but the Government of India, while agreeing in theory with Sir Walter Layton that the allocation should not be capricious, consider it essential to insist that the times and amounts of transfer must depend on the judgment of the Central Government. It is, of course, necessary that the Government of India should consider their own financial position before agreeing to a policy of transfer of revenues. But when once this is done, the actual transfer must be made according to a definite programme, any departure from which would be justified only in exceptional circumstances.

It is clear that an augmentation of the resources of the provinces is very urgently called for, and for this purpose a re-adjustment of the finances of the country is an imperative necessity. It was suggested in my work *Provincial Finance in India* that, in case it was found impossible to give effect to a policy of re-allocation without securing some improvement in the resources of the Central Government, a small measure of additional taxation might be resorted to. Emphasis was, however, laid on the necessity of selecting the new sources of revenue with anxious care so that they might not be felt as a hardship by the people, and it was pointed out that three taxes answered that test, namely, an increase in the duty on imported cotton goods, an addition to the duty on petroleum, and a tax on the private imports of silver. The Finance Member included these additional resources, together with some others, in his budget for the current year for the purpose of meeting a deficit. He gave the assurance at the time of the presentation of the budget that the new taxes would be utilised to create a margin which would enable the Government of India "to give a fair measure of assistance to the Provincial Governments in the next chapter of their history." It will not be long before the Government of India will be called upon to redeem this

promise. Normal conditions will return as soon as the constitutional problem is settled to the satisfaction of the people, and there should thereafter be no delay in placing the financial system on a sound footing.

In order that the finances of the country may be properly administered in future, it will be absolutely essential to provide that taxes should be levied only on the authority of the representatives of the people and expenditure incurred with their sanction. For this purpose, the existing restrictions on the powers of the legislatures—both central and provincial—must be removed and the special powers vested in the executive done away with. Borrowing has so far been a matter of executive action, but under the new constitution it should be brought under the control of the legislature. The administration of the Finance Department at the centre should be entrusted to a popular minister who would be responsible to the central legislature, while the ministers in the provinces should administer their own finance departments subject to the control of their respective legislative councils. A Finance Committee should be constituted in every province, and the composition of the Public Accounts Committees should be so altered that only elected members of the legislatures may in future be eligible to seats on them. The powers of the Secretary of State should be made similar to those of the Secretary of State for the Dominions; and such matters as the floating of loans and the investment of balances—which are in reality agency matters—should be transferred to the High Commissioner. While the co-operation and friendly advice of the Secretary of State would be welcome, his control of India's financial policy must be definitely ended. The Council of India—which is fast becoming an anachronism—should be abolished. The finances of the country should be vested in the Governor General in Council, and the Crown and the British Parliament should not exercise any powers in regard to Indian financial questions beyond what are exercised in respect of such matters in the other Dominions.

In conclusion, I desire once again to emphasise that the great problem of the hour is how to impart a balance and a harmony to the financial system of India which have so far been lacking. Far too much attention has been directed in the past to the protective side of administration and far too little to its ameliorative aspect. Defence and preservation of internal order have been regarded almost as the sole functions of the Government in India to the neglect of services on which the health happiness and progress of the people depend. The most essential need of the present moment, therefore, is the development of the nation-building services. These services being under the control of the Provincial Governments, it is necessary to set them firmly on their feet by placing adequate resources at their disposal. But where are the funds for this purpose to come from? The answer is—in the first instance, by retrenchment and re-allocation of resources, and, secondly, by fresh taxation. To seek to impose additional taxes just now will not only intensify the existing discontent but also minimise the chances of success of the new constitution. The reason is obvious. India has up till now been governed by an alien bureaucracy and the people have never felt that the taxes raised from them have been spent for their benefit. Therefore, before any proposals for fresh taxation are put forward, there must not only be a proper re-adjustment of the financial relations between Britain and India and between the Central and Provincial Governments of the country, but also a complete change in the system of financial administration. Even after these steps have been taken some time must elapse before the people become cognizant of the altered situation. Meanwhile, retrenchment must be effected in the central budget, the funds thus released being placed at the disposal of the provinces. This re-allocation must be such as to make it possible for the Provincial Governments to achieve substantial progress in the development of subjects like education, public health, medical relief, agriculture and industry. When the people come to realise that the new system of government is

national in spirit as well as in personnel, and that the finances of the country are administered in the interests of the people, then will it be possible to impose fresh taxation. Once the people are convinced that State expenditure tends to conduce to their own well-being, they will cease to regard taxation as an evil, and will be ready to contribute to the resources of the Government. There will thenceforth be no lack of funds for the beneficent activities of the State, and the future historian will be able to say of the Finance Minister of New India, as Kalidas said of King Dilipa of old,

प्रजानामेव भूत्यर्थं स ताभ्यो बलिमग्रहीत् ।
सहस्रगुणमुत्स्रष्टुमादत्ते हि रसं रविः ॥

" It was only for the good of the people that he collected taxes from them, just as the sun draws moisture from the earth only to give it back a thousandfold."

REPORT OF DISCUSSIONS ON PAPERS

DISCUSSION ON LABOUR PROBLEMS

PAPERS BY MESSRS. D. G. KARVE (Poona), R. B. GUPTA (Lucknow), AND B. V. NARAYANASWAMY (Annamalai University).

Mr. J. L. Raina of Jammu asked Prof. Karve why it was necessary that there should be co-ordination of labour legislation in British India and Indian States? Why could not these two divisions of India have their own legislations as was the case in France and Germany?

Mr. Lokanathan of Madras said Prof. Karve was suspicious of the conventions of the International Labour Office. The speaker thought that the past experience did not bring him to this conclusion. On the other hand India was very slow in keeping pace with these conventions.

He thought there was no use multiplying Councils and Conferences. An Asiatic or Indian Council would do no good. Their object should be to try to improve conditions of industrial workers in India, keeping in sight, at the same time, the good of the industry.

With regard to Prof. Gupta's paper he said time had come to collect data. They had not been able to collect definite figures with regard to labour. Unless these figures were obtained it would be difficult to formulate any conclusions. They ought to know how far Indian workers were efficient and how they compared with workers in other countries. He, therefore, suggested that more and more effort should be made to make a definite line of enquiry and to collect true data. Until that data was available it was not possible to give support to the proposals made.

Prof. T. K. Doraiswamy Iyer of Annamalai University asked why so much emphasis should be laid on the International Labour Office. One felt some anxiety that the development or improvement of labour conditions should be through external forces. In other countries of the world the impulse for improvement of labour conditions came from within. Prof. Karve had said India should have some kind of Council. An Indian Industrial Council was very important. They might study conditions in foreign countries but nothing could be done with external help only. They should study why labour wages in India were low. The wages of industrial labourers were low very largely on account of the fact that agriculture in India was disorganised. The labourers for industries were taken from among the agriculturists and so long as agriculture was not improved he did not think there was any prospect of improvement in the conditions of industrial labour. Much of the mischief in India, in spite of their Conferences, was largely due to the fact that they did not view economic problems as a whole. There was no co-ordinate attempt. Banking would have to be developed and they could not develop industries without reorganising the fiscal policy.

Bhagat Ishardas of Lahore referred to experiments in Kashmere State of diverting the funds collected in Charitable Institutions for the betterment of trade and industries. He said there were immense resources hidden in charitable institutions which could be profitably utilised for the improvement of economic conditions.

Mr. V. K. R. V. Rao of Wilson College, Bombay, said labour in India was very largely unorganised and the existence of international labour organisation was godsend to labourers of India who were not sufficiently organised and were unable to assert their rights. He condemned the slackness of Government of India in not introducing several of the conventions of the International Labour Office.

Prof. V. G. Kale of Poona said the attitude of Mr. D. G.

Karve had been misunderstood by some of those present there. The conventions of the Labour Office should be considered from the point of view of large national interests. As it was, it was difficult to start industries owing to difficulties of scientific and technical knowledge, lack of capital and facilities for free competition, and if on behalf of labour certain extravagant and impossible claims were made, which were not likely to be satisfied, there was no hope of industrial development of the country. In the interests of labour, therefore, it was necessary that the economists assembled should take proper notice of the problems. They ought not to be partisans of either one section in the country or the other.

Referring to Mr. Gupta's paper, Prof. Kale said there was a large floating agricultural unemployed population that could not be confined to villages. Moreover the population was increasing and the incomes could not keep pace with the increase in expenditure. So labour had to leave the villages but at the same time the conditions of labour in large cities were not satisfactory. They could not say that labour should not be allowed to migrate. So they should try to improve the conditions of agricultural labour. In this period of transition labour did not know where to go and the manufacturers were complaining of absentees and inefficiency. They had to take labour in India as it was and make the most of it. The speaker agreed with the observations of Mr. Doraiswamy Iyer.

Doctor Balkrishen of Rajaram College, Kolhapur, pointed out the following passage in Prof. D. G. Karve's paper:

> "The activities of Moscow which deserve nothing but the most summary repudiation at the hands of the economists . . ."

and said Moscow Government was carrying on a most important experiment on socialistic lines and it was not fair for an economist to condemn it. An economist should keep an open mind. All the theories of British scientists stood condemned today and even

theories of the German School of thought might not stand the test of truth. The economist could not stand for the one or the other theory. The speaker suggested that the abovementioned passage should therefore be expunged from the paper.

With regard to Mr. Gupta's paper he referred to the words "vicious Punjabi Moneylender" and asked whether or not by Punjabi was meant a Pathan, as, so far as the speaker knew, very few Punjabi moneylenders were carrying on their business outside the Punjab.

Mr. Kale intervening here said that the word Punjabi meant a Punjabi. In his part of the country the Punjabis were carrying on their moneylending business.

Concluding Doctor Balkrishen asked Mr. Gupta whether in addition to the remedies suggested by him in his paper there were not other remedies to ameliorate the lot of the labourer.

Mr. D. R. Gadgil of Gokhale Institute, Poona, said whatever improvements in labour conditions in India had taken place were the result of external influences. As long as Indian labour was not organised and government was not prepared to legislate for the benefit of labour they would have to depend on external influences.

Mr. J. W. Thomas said the employers in India could look after themselves, but for the amelioration of the lot of the labourers satisfactory trade union organisation was essential. Therefore the central problem they had got to face in the industrial development of India was how to develop a satisfactory trade union organisation.

Too much emphasis had been laid on special differences rather than on common features of humanity. The problem was how leaders could be grown from the ranks of labour and not from outside. Until that were achieved he was very doubtful that there was going to be any satisfactory Trade Union movement in India.

Mr. A. C. Mukerji of Gordon College, Rawalpindi, said illiter-

acy was the main cause of the backwardness of Indian labour. They could wait for conferences but they should make an immediate start with the problem of educating Indian labour.

Replying to the debate Mr. Karve said what he had suggested in his paper was that as in many other cases of legislation so also in the case of labour legislation some sort of co-ordination of law prevailing in States and British India should be made.

With regard to the view of Mr. Lokanathan that Conferences should not be multiplied and the attitude of suspicion regarding outside influences should not be raised, the speaker said he did not hold brief for any one class or the other. They should go cautiously with regard to external elements. They should have so much co-ordination with Indian conditions on the one hand and the suggested legislation on the other.

He repudiated the implied suggestion that his motive was to put up capitalists against labour. What he wanted was co-ordination of all the interests in the country with the external influences.

Referring to the remarks of Dr. Balkrishen, he said he belonged to no school of thought. What he had alluded to was the communist activities in India and not in Russia. He was aware of the great importance of the big experiment being made in Russia and he was entirely at one with Dr. Balkrishen in keeping his mind open.

Doctor R. B. Gupta replying to the debate expressed agreement with Mr. Gadgil that the figures of absenteeism presented by employers were vitiated to such an extent that they tended to accentuate the figures of unemployment.

He told Dr. Balkrishen that in his paper by the word Punjabi moneylender he meant a Punjabi moneylender and not a Pathan moneylender. In the United Provinces a large number of Punjabis, carrying on moneylending business, had been seen by him.

He believed that the only solution of labour problems in India was proper education of the labouring classes as well as develop-

ment of trade unions of the right type. In this he agreed with Mr. Thomas.

With regard to the query of Mr. Rao as to whether there was implicit understanding between the labourer and the employer with regard to minimum wages, he said labourers were much too illiterate to have any such definite understanding amongst themselves. It was true that in some cases the labourers were willing to accept any sum offered to them as wages. This was due to the fact that many labourers would otherwise have to face starvation.

He agreed with Prof. Doraiswamy that the agricultural labourers were getting low wages which was due to the increasing pressure on land, increase in population and unprofitableness of agriculture.

DISCUSSION ON CENTRAL PROBLEM OF BANKING

Papers by Messrs. P. J. Thomas (Madras University), H. Sinha (Calcutta), and D. Pant (Lucknow University).

Mr. Chhablani of Delhi said he differed with the view of Dr. Thomas that the central problem of banking in India was the wide disparity between the bank rate and the market rate. He quoted from a report of the Controller of Currency in support of his view. He said in Delhi even in the busy season—March and April, 1929—the market rate was lower than the bank rate. He regarded the bank rate as unduly high and opined that it could be reduced considerably.

The speaker said Dr. Thomas did not quite understand why there was difference between the gross rate of interest and the net rate of interest. Of course the market rate of interest could not be very much lower as it was charged on loans generally given without any security. The bank rate was based on security, and they could not base banking on non-security and non-recovery.

The speaker further added that Dr. Thomas had told them that Indian farmer borrowed mostly for unproductive purposes. The Central Provinces Banking Enquiry Committee had come to the conclusion that 69 per cent of the debt was for productive purposes. The evidence from other provinces also showed that the bulk of loans were for productive purposes. The real peculiarities of the agricultural debts seemed to be that the debts were not large. They were, however, really large in relation to the income, yield and capacity of the land.

Principal Tannan of Bombay said that Mr. Chhablani had made a good deal out of the point of disparity between the rates of interest. He thought Dr. Thomas had probably taken into consideration the money markets of Bombay, Calcutta and Madras

only. The high rate of interest in India was due to the lack of capital. If the wealth of the people of India were compared with the wealth of the people of other countries of the world it would be found that there was dearth of capital. There was also inadequacy of saving due to the lack of banking facilities. The banks in India had been mainly those of foreigners, and it did not pay them to open branches in comparatively small towns. Another reason, which was most important, for the high rate of interest, was the currency and exchange policy of the Government of India.

Referring to Dr. Pant's paper the speaker said that of course the financing of brain was possible in India too only if two persons could be found to pay premiums on the life-policy.

Mr. Doraiswamy Iyer referring to the paper of Dr. Thomas said the central defect in Indian banking was the absence of proper kind of organisations with a view to bring together the funds scattered among Sahukars, Chetties and Mahajans. In India the loanable capital is largely drawn from the Sahukars, Chetties and Mahajans and not from the general public as elsewhere. Herein lay, according to him, the defect and the reason for the high rate of interest. If Indian co-operative movement, which was suitable to the villagers, had failed to achieve its object, the *taccavi* loans could not function. There must be something wrong in the village system. There must be absence of solidarity which would have to be tackled directly, and if the co-operative movement had been found ineffective then the morality of the people would have to be improved by means other than improvement in banking.

Mr. Vakil said there was confusion as to what was the central problem in Indian banking. The most important problem in Indian banking, from the point of view of a large number of people in a district, was to co-ordinate the work of the indigenous banker with the banks. It was a question of making indigenous banker understand that if he modernised his business it would be advantageous to him and to the country. How to do that was the problem. Ways and means should be found for the indigenous

banker to realise the aims of the co-operative movement and to induce him to co-operate with them. Eliminating the indigenous banker would not solve the problem. From his experience the speaker found that the co-operative society was an additional Sahukar. The co-operative society instead of eliminating the Sahukar was encouraging him.

Dr. J. C. Sinha of Dacca said the central problem of Indian banking was not the disparity between the rates of interest but the lack of link between the Bank and the Sahukars. At present the source of link was the endorsing shroff. It was a very difficult problem to tackle the question of linking. It would be difficult if they looked at the conservative character of the Indian shroff. The shroff could not easily come in line with the modern banking methods. One thing that was necessary was that the whole psychology of banking methods should be changed. "If we want to have a link then we have to make these indigenous bankers agents of some big banks."

Dr. Thomas then replied to the debate on his paper. He said Mr. Chhablani was wrong in assuming that there was no great disparity between the bank rate and the market rate of interest. Mr. Chhablani might be talking about his own province. He agreed with him that there was great demand for funds for agricultural operations. The people were not in a position to use credit nowadays. It was quite true to say that loans for unproductive purposes were more than for productive purposes.

Dr. Pant in replying to the statement of Mr. Tannan said that even if two persons were prepared to guarantee the payment of premium on the life-policy taken by a person no bank would give loan on the entire sum insured but only on the amounts already paid as premiums.

DISCUSSION ON REGULATION OF BANKS IN INDIA

PAPER BY PRINCIPAL M. L. TANNAN OF THE SYDENHAM COLLEGE, (Bombay).

Prof. Vakil of Bombay opening the debate said he would like to emphasise the suggestion made by Mr. Tannan, namely, that some control should exist over foreign banks. The control should not mean that the foreign exchange banks should be asked to pack off. The position was this. India had in these foreign banks deposits to the value of about seventy crores of rupees. So it was quite fair to have some sort of control over them to ensure that, due to some calamity at their head offices, the Indian depositor would not suffer out in India. These foreign banks held the monopoly of Indian foreign trade. There was not a single Indian Joint Stock Company to stand competition with them. The time had therefore arrived that an atmosphere should be created by which sufficient impetus should be given to the successful working of Indian Joint Stock Companies in the field of foreign trade. These foreign joint stock companies commanded eighty per cent of the foreign trade of India and they encouraged foreign commercial houses. If the right atmosphere for the development of indigenous exchange banks were created by certain restrictions on the foreign banks, India would have a number of successful Indian Joint Stock Banks doing foreign trade. This would also encourage the opening up of Indian commercial houses.

Mr. Chhablani of Delhi complained that the Joint Stock Banks drained away money from non-industrial centres and spent it in three presidencies only which had industries. It should be laid down that a certain percentage of money collected from certain centres must be spent there.

Mr. Tannan replying to the debate referred to a statement made by an earlier speaker that in India they had to carry on

their trade in £ sterling. He explained how that was happening. He said if a Continental merchant wanted to purchase an Indian commodity he would arrange with an Accepting House in London and it was for that reason that a Continental firm would pay in £ sterling, because the continental merchants did not have sufficient confidence in the banking firms in India. They were, therefore, not prepared to have any direct dealings with Indian firms. The Indian merchant had to make arrangement with an Accepting House in London to arrange for the shipment of goods from the continental merchants whose bill was thus drawn on the Accepting House in London.

The speaker did not agree with the suggestion of Mr. Chhablani that a certain proportion of funds collected by a bank must be invested in the area from which those funds were collected.

DISCUSSION ON INDUSTRIAL BANKING

PAPERS BY MR. V. K. R. V. RAO (Bombay), MR. LOKANATHAN (Madras), AND DR. J. C. SINHA (Dacca).

At the request of the President, Mr. M. L. Darling, who was present among the audience, made some observations. Mr. Darling said the major problems of industrial finance had not arisen in the Punjab. The Government there had touched upon the problems of financing cottage industries. They had estimated that the output of the Punjabi weavers was about four crores and the number of weavers was in the neighbourhood of two lakhs. So far they had been able to organise about two hundred societies for weavers. He did not know whether any of the methods suggested by the speakers would help them in the Punjab. But he felt very strongly that the basic factor of every kind of finance was sound business character. The depositor or the investor wanted to find out whether his money was safe and would yield return and these two things were dependent upon the character of the industrialist.

Prof. Doraiswamy Iyer said a good deal of emphasis had been laid on the absence of banking facilities as if it were banking facilities alone that were responsible for the lack of industries. He felt it was not the absence of banking facilities that was responsible for industrial backwardness. What were the kinds of industries which required finance? They were principally Cotton, Jute, Iron, and Steel. One could not say that there was absence of banking facilities for the development of these industries. But banking facilities to them could not be supplied by opening industrial banks which required government guarantee. And the Government was not prosperous and the general taxpayer could not be called upon to guarantee finance for an industry in the promotion of which no adequate capacity had been shown.

It was not the German *banking* that had been mainly responsible for the development of German industries but the German *capacity* for investigation, hard work and the presence of a large number of experts. Banking was an accessory rather than a primary factor. If there was sufficient grit in the industrialist and if he inspired confidence he could easily find money.

Mr. Gadgil said there was no question of the relative importance of the different factors responsible for backwardness of Indian industry but that there were certain deficiencies in the banking structure and the question before the Conference was how best to remedy those deficiencies. According to Mr. Rao's scheme the State should give aid to the existing Indian banks and thus give their activities an industrial bias. This aid seemed to him to be a weakness in his scheme. To him it seemed that it was quite reasonable to experiment with an All-India Industrial Bank but to give the existing banks State aid would mean that they would be jeopardising the natural growth of industries.

Mr. Chhablani said he was pessimistic about the success of industrial banks. Mr. Darling had touched the very root of the matter. The speaker was rather alarmed on the prospect of having provincial industrial banks. He doubted the wisdom of having one bank but the speaker had suggested so many. He deprecated the idea of having provincial outlook in the matter of industrial development of India. Such a course would create conflict of economic interests which would really mar industrial development. For example, it would be deplorable to see the Bombay cotton industry ruined because of cheap capital being given by Madras or the Punjab Ministers to cotton mills in Madras and Punjab respectively.

Principal Tannan said Prof. Doraiswamy Iyer seemed to think that as far as industries were concerned capital would freely come in. He differed with this view. Even the Tata's had to raise money at a very high rate of interest in London. There was really a shortage of capital for industries. All the three gentle-

men who had read papers had admitted that. Therefore the problem was how to find more capital for financing industrial undertakings. He did not think that it was possible for the existing banks to take up the question of financing industries. The capital of Indian banks was too small even for financing commerce. Therefore they could not be expected to take up the financing of industries. The speaker personally felt inclined to support the view of Dr. Sinha that they should have an All-India Industrial Bank. In India there was lack of confidence due very largely to lack of education. How they could expect to buy shares or debentures when they did not know the difference between shares and debentures? If they wanted to be able to raise money for industrial development the people must have a little more education.

Prof. Kale said that one of the speakers had said that industries in India were suffering from lack of facilities both in regard to fixed and current capital. So far as his experience went with regard to banks and protection for industries, he had found that the industrialists were complaining of the lack of working capital. Even the middle class and the small capitalists were feeling the pinch of the difficulty. In addition to the All-India Industrial Bank, it would be necessary, in different provinces and probably in districts, to have industrial banks to meet the requirements of those particular places. It went without saying that Indian industrialists were suffering not only from lack of fixed capital but also from lack of working capital. He did not think that there was any lack of capital as such in the country. They all knew that whatever savings there were in India they were not really mobilised, but the trouble was that that capital could not be had at a reasonable rate of interest.

Mr. Rao in reply to the debate said that he had fully expected that the economists would not take up his scheme as economists generally were conservative people. Dr. Sinha had told them that India should have industrial banks of the type which Japan had but he had not told them how to raise capital for that.

If they got State aid for that bank it would mean State Socialism which the speaker doubted if anybody would wish to see.

As regards the speaker's suggestion for State aid for creating bias in favour of Industries in the banks he said if the existing banks were to have industrial departments they might not be in a position to have all the industrial experts and in order to enable them to have these experts State aid would be necessary.

Mr. Lokanathan said there were certain advantages for having industrial banks of all-India character The provincial banks could certainly be started. He emphasised that he never said that State subsidies to provincial industrial banks should be on provincial basis

Dr. Sinha replying said that Mr. Chhablani doubted whether the industrial banks would be able to raise capital. The industrial banks would, said the speaker, act as intermediaries between the investors and the capitalists. These banks would have the expert staff to examine proposals of industrialists and would give expert opinion to the investors regarding the investment of capital and thus attract capital.

He agreed that for short-term capital the technique of the present banks could be improved. The real difficulty was how the long-term capital could be secured and for that reason they wanted industrial banks.

DISCUSSION ON THE THEORY OF DISTRIBUTION

PAPERS BY MESSRS. I. M. KAPOOR (Lahore), AND V. L. D'SOUZA (Mysore).

On an invitation from the President, Mr. Manoharlal of Lahore said in the study of Economics "Man" did occupy the central position. Prof. Marshall had said that the Science of Economics was the study of man and his needs. He had emphasised Man as being the centre of study, particularly so in the Theory of Distribution. The School of Prof. Marshall had throughout adhered to this idea, whether it was a question of risk-bearing or reward for deferring enjoyment. In other words, the shares in distribution, according to Cambridge Economists, had not fallen into the lap of certain abstract hard impersonal things or into the lap of abstract capital. Those things were not thought of any longer. The questions during the last twenty years engaging the Economists were "how could man shake off the miseries by which he was surrounded and how could he become better off?" The well-being and welfare of man in society was the critical concept. They ought to go ahead in this country with problems which related to the welfare of Indians working in society without undue attention to verbal controversies on theory.

Mr. Gadgil said by the Theory of Distribution they meant different things at different times. If they realised that, all the confusion would go. Doctor Cannan had clearly said that in the consideration of personal distribution functional distribution was not irrelevant. Doctor Cannan's contention came to this, that land was limited, but with the development of transport and opening up of colonies, etc., land was no longer limited.

From the other point of view could they say in the matter of national labour that land was not limited? Was it not so that the increase in population must be borne by the land India had?

Indians could not go to Canada or Australia. For the calculation of India's productive resources they had to take into consideration the existing land only. And if that was so they were entirely justified in saying that land was an agent of production and was largely restricted. Therefore they must consider the return to it as being different from the return to capital.

Mr. D. N. Bhalla of Lahore said there was no particular sanctity attached to any particular classification. Various classifications could be brought into existence for certain specific purposes.

When they got on to the consideration of problems of taxation or government expenditure or with wider policies with regard to the solution of the problem of inequalities of income and their effects on social welfare the distinctions and classifications proposed by Prof. Kapoor would be helpful.

There was not much strength in Mr. Kapoor's argument for doing away with the classification proposed by classical economists on the ground that in certain respects all the agents of production had similar characteristics. There could be no clear line of demarcation in the classification of any organic or inorganic structures. Doctor Marshall had made that clear and laid emphasis on it showing how income known as "pure" rent of land shaded off gradually into a normal return to floating capital known as interest, as the circumstances regarding the supply of an instrument of production were gradually modified. It was this gradual shading off that made him propound the theory of quasi-rent as lying between and partaking of the properties of rent of land on the one hand, and of normal interest on capital on the other.

Mr. Bhalla further pointed out that if simplification was sought it might be in the direction of lumping together of capital and organisation because very often the two occurred in such close association that it was almost impossible to isolate the return to the one from the return to the other and not because the two were not logically distinguishable from each other.

Prof. Kapoor in reply said even Prof. Cannan said that no student in the College deserved the B.A. degree unless he had intimate knowledge of Dr. Marshall's theories. Prof. Marshall's book gave tremendous exercise to the mind of students. It would not be claimed by anybody that Prof. Marshall had said the last word. If Prof. Marshall's ideas were given to tde students they would attract criticism.

As no criticism was offered on Mr. D'Souza's paper he was not called upon to reply.

DISCUSSION ON THE TEACHING OF ECONOMICS

PAPER BY RAO SAHIB KESARI SINGH PANCHOLY, READ BY MR. D. N. BHALLA.

Mr. N. C. Daruwala of Ludhiana said he had started the learning of Economics at the Bombay University and finished it at Cambridge. He agreed with the author of the paper with regard to his suggestions about the collection of data. Statistics had made Economics a dull subject. As regards the teaching of the subject, so far as the Punjab Government was concerned the subject was not taught at all in the Intermediate Classes. He did not know why the Government was against the teaching of this subject at that stage. He made an appeal to the Government to introduce the subject in its intermediate colleges particularly because the University had recognised the disability of doing so in the syllabus of the Intermediate Examination.

Prof. Chhablani said the real difficulty in India was that the teachers were not giving enough time to specialise in particular branches. The very data on which the studies in Economics were based was so changing that a man, in order to teach a class, had to do enormous amount of work every day. Then, again Economics was not receiving a fair treatment so far as equipment was concerned. He agreed, however, that the equipments of this subject were costly. For example, if a report of the Banking Enquiry Committee was needed they had to spend as much as Rs. 200. He suggested that the question under discussion should be adequately discussed at a formal meeting of the representatives of al the Universities in India.

Continuing he said that there was an impression in several universities that the larger the number of outside examiners the better. The result was that sometimes the teacher was specialis-

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ing in one direction and the examiner set his papers in the other direction. "If you have appointed a particular teacher with a particular standard you have to trust him."

Mr. Doraiswamy Iyer said Economics was a new subject and consequently particular universities branched off in particular directions without co-ordination. There might not be standardisation but there must be some kind of understanding of the way in which the same thing should be taught in a particular way.

One felt that in the organisation of the teaching of Economics a great deal of importance ought to be attached to proper study of theory, but attention should also be devoted to practical side. The writer of the paper however laid far too much stress on the practical aspect of the study and seemed to minimise the value of the study of theory and the study of a large number of books.

Mr. I. M. Kapoor said he noticed a tendency among the teachers to make the subject easy in order to make it popular. His own view was that by making the subject simple they would make it shallow and consequently useless. They should teach the students what was right and tell them how to sift right from wrong. They should give them examples of Economic Fallacies, like the term " utility " and tell them how to correct them.

Mr. Lokanathan said in the Madras University they did not lay much emphasis on field work, not because field work was less important but because at the graduation stage the training of the mind was more important. He felt that whatever other deficiencies the Madras student might have he had not been found wanting in the proper handling of economic problems.

It was not possible to form any correct notion of the whole course of Economics unless they took the curriculum of Economics in a particular university as a whole. In the Madras University they had not got the M.A. nor the Intermediate Course in Economics. He thought that it was to their credit that within three years they were able to create such great interest for the subject among their students.

The association of History and Economics was not altogether the only form of combination that they could think of. He thought that it was increasingly realised that the student could not learn Economics unless he had come to the University equipped with general knowledge in other sciences. So in the reorganisation that they were seeking they should not say that only the history student should take up Economics. They should welcome co-operation with Mathematics, Statistics and other sciences as well. Only on a sound school education could they build up a sound school of Economics.

Mr. J. W. Thomas said, not having been long in India, he could make remarks only which could not be taken as conclusions. He said there was no specialisation of Economics in the Universities. The impression left on him as the result of attending three of these conferences was that every man came to the Conference thinking that he was competent to speak on every subject (applause).

They needed students who had good grounding in certain general subject for building up in them sound knowledge of Economics. A good grounding in English, Mathematics, Geography and History was probably essential. The speaker opined that one of the most deplorable things in the University system was to set certain books to students and to ask them to read those books and to tell them that they would be examined on them, with the result that students were encouraged in unintelligent cramming.

Mr. Anwar-ul-Hassan, of S. E. College, Bahawalpur, said at the present time the study of Economics was theoretical but this should not lead them to believe that there was any kind of stigma that attached to the students or teachers. It was due to the shortage of teachers that they had to specialise first in the theory of Economics. Later on they would be in a position to take up practical work in Economics. It was not due to any kind of ignorance or slackness on the part of those connected with Eco-

nomics that they were not able to take up practical study of Economic problems but because of their limited resources in teachers.

Mr. V. K. R. V. Rao said the impression had been created by the paper read before the Conference that the Bombay University gave a subordinate place to Economics. He said almost all the students who appeared in B.A. Examinations took up Economics. In Bombay there was a combination of the theoretical as well as the practical aspect of this Science.

Prof. Kale said one of the difficulties was that the professors of Economics had no control over the syllabus prescribed by the Universities. The second difficulty was the deficient material (students), with which they had to work. If the student was taught in the schools to cram his books then it was very difficult to induce him to give up that habit. But in spite of these difficulties the professors should do their best and it was desirable that they turned the searchlight inward to see if they could not improve themselves and their methods of teaching.

Moreover there was the difficulty of not possessing good libraries. The best thing to do in the classroom was to point out the differences between the theory of Economics and the practical economic life around them.

Rai Bahadur Sunder Das Suri of Lahore said the Punjab University had introduced Economics in the Intermediate stage in order to create a basis for theoretical teaching that was to come up afterwards. The aim was to have much longer course for Economics than was possible if Economics was introduced at a later stage.

The discussion concluded by the unanimous adoption of the following resolution moved by Mr. D. N. Bhalla and seconded by Mr. J. W. Thomas of Lahore:

> "This Conference strongly feels that time is ripe for a full discussion of the question of teaching of Economics and with this purpose in view recommends that the Executive Committee of the Association

should consider the desirability of placing some definite resolutions on the teaching of Economics at the next Conference in the light of discussions that have taken place at this Conference and the suggestions which may be received in this connection subsequently."

THE MATCH INDUSTRY IN INDIA

Paper by Raja Sir Daya Kishen Kaul.

Mr. Manoharlal, Ex-Minister for Education, Punjab, presided.

Mr. Manoharlal in the course of his remarks said he considered the consumers' interest to be paramount and he would not feel justified, as an economist, to shut out foreign enterprise in India if that was to the consumers' good. The policy of protection was in itself difficult to justify. Discriminating protection required a much stronger case. The permanent cheapness of the product would be the deciding factor. He could not understand as to how the Swedish Kartell after killing the Indian concerns would be able to remove away factories established successfully in India. He finally asked the learned reader of the paper if he thought that the Swedish Kartell was likely to raise prices to the detriment of the Indian consumer after it had succeeded in killing the indigenous enterprise.

Prof. Kale said he could not agree with Mr. Manoharlal that the consumers' interest was paramount. As economists they had to look to the interests of the consumers and producers and to see wherein the maximum advantage lay for the country. But he wanted to know one thing: Why was it that the Americans had not considered it proper to protect themselves against the Swedish Kartell?

Mr. P. S. Sodhbans of Lahore asked why the match manufacturers of India were not organised as joint stock concerns. He opined that an indigenous enterprise in match industry would be better able to withstand the machinations of the Swedish Kartell if it were organised on joint stock lines.

In reply Sir Daya Kishen Kaul said the Americans had not taken any action against the Swedish Match Producers in America because they had themselves combined with the Americans in

the manufacture of matches. Indians had made efforts without success to form combines of Indian Match Manufacturing Companies. They could not combine with the Swedish Kartell as the latter imposed their own terms. He pointed out the difficulty of floating a joint stock company for making matches, which was that against the competition of Swedish Trust a joint stock company would not survive while a private company would.

Sir Daya Kishen said the protection was needed not in the interests of the manufacturer only but in the interests of the consumer also. He was of opinion that if by denying protection the Indian Match Industry was allowed to die the Swedish Combine would hold the monopoly and would force the consumers to pay much more than they would pay when the Indian Industry was living.

PRESIDENT'S CLOSING REMARKS

In closing the session of the Conference, Dr. Pramathanath Banerjea, the President, said:

"My first word will be a word of thanks to you for the manner in which it has been possible for us to conduct the proceedings of this Conference. You have given me a great deal of indulgence in this matter and I hope, if I have appeared to be hard on any of you—(cries of 'Not at all')—you will pardon me. Sometimes it has been incumbent on me to impose time limit on speeches, otherwise it would have been impossible to finish our deliberations in time. Besides, there is limit to your own patience. Although the students of Economics are expected to be patient, there is limit even to their patience. I shall now follow this rule and therefore shall not inflict a long speech on you."

"We have discussed four important questions. The place of honour was given rightly to the question of Labour. Labour, of course, is the most important factor in Industry and, therefore, those who urged adoption of steps to improve the existing conditions of labour in this country deserve our thanks. I am glad that a great deal of work has been done in this connection in the past, in the study of labour conditions, the study of wages, the study of housing, of labour and so forth but a great deal still remains to be done and I hope and trust that Economists will devote their attention to the investigation of this problem. But while I regard labour as one of the most important factors in Industry we should not ignore the other factors, nor should we think that there is a necessary conflict between labour and other factors in the question. It would be wrong to expect other investigators to consider every aspect of the question in detail but it is very desirable and incumbent upon us to have a very comprehensive look on the whole question. Otherwise our very object may be de-

feated, if we look only at one aspect of the question ignoring the other aspects. A great deal has been said about special conditions. Conditions differ in this country from those of other countries. But too much emphasis must not be laid on these differences. The phrase 'India is India and England is England' does not, to my mind, convey any meaning. On the other hand if we say that 'India is in the main an agricultural country whereas England is overwhelmingly industrial, and therefore, the main question of India is that of agricultural labour, and the main question of England that of industrial labour,' that position can be understood. But even in regard to that we must consider whether it is necessary to make up the leeway in this matter or not. For instance in England the cry is 'Back to the country,' but our cry should be 'Develop manufactures'"

"Coming to the second question, namely Banking problems, very interesting papers were read and prolonged discussions held on these papers. This is a subject of great importance at the present moment and this subject will also be discussed at the next Conference. It is not, therefore, necessary for me to make any observations on this subject at the present moment. We discussed this subject from three points of view—questions of general banking, questions of industrial banking and the regulation of banks."

"In the General Banking we discussed various questions such as establishment of Reserve Bank. This was at one time a living topic and it is going to be a live topic in the course of the next year or two. Industrial Finance is undoubtedly one of the greatest needs of the country but whether the problem is to be tackled by giving industrial bias to the existing banks or by the establishment of industrial banks in different parts of the country is the question worth our consideration. The regulation of banks is also a very important matter but in this matter a great deal of caution will be needed. We must see that unsatisfactory methods do not continue in future but at the same time regulation

should not be of such a character as to hamper the growth of banking in this country."

"The third subject which we discussed was the theory of Distribution. In this connection we had two schools of thought, namely, the Cambridge School and the London School and we had the advantage of hearing an eminent representative of the Cambridge School, a pupil of Prof. Marshall. But to my mind it seems that the difference is one of emphasis. There is no real difference between the ultimate goal of these schools. And in India we are not followers—we are not expected to be the blind followers—of either of the two schools (applause). We should take the best that we find in both."

"Lastly, gentlemen, we considered the question of teaching of Economics. When I began my career as a teacher, more than 25 years ago, Economics was not a separate subject by itself. Since then the importance of the subject has grown and today it forms a very important subject of study, almost in every University in India. In Calcutta a great deal of attention is devoted to the study of this subject and it has been so popular there that in our new 5th Year Class it has attracted the largest number of students as compared with students who have taken other subjects. But while this may be regarded as very satisfactory we should also be on our guard against any unsatisfactory features."

"Previous speakers laid stress on various aspects of the question and I think there is a great deal of truth in the views expressed by them and the criticisms levelled against the present system of teaching in most of our Universities. But I do not think we ought to adopt the policy of let alone or the policy of drift but we must see and find out wherein the difficulties lie and try to remove them. But even in trying to remove them we must be patient. We must be patient with the existing circumstances of the country and we must remember that the material we have to use cannot be improved in a day. There are a few things which occur to me at the present moment which are of utmost importance.

In the first place one of the speakers laid stress on investigation. That is very necessary but reading should not be discouraged. As a matter of fact it should be the effort of every teacher to encourage as much of reading by the students as possible. Short cuts should always be discouraged. Notes and cramming of books should also be discouraged."

"I have said so far regarding reading. The lectures should be delivered by the teachers in such a way that they may be interesting and may at the same time bring fruitful results. It is very necessary on our part to make the study of Indian Economics interesting. Unless we make it realistic, the subject will not be found interesting and the study will not have fruitful results."

"Ladies and gentlemen, there is one other aspect of the question which I would like to place before you. And that is that, while we specialise in our different lines of study, we should not forget that Economics is an organic whole. And while pursuing our different lines of study we should co-operate with one another in arriving at a general harmonious result. This co-operation in efforts is also needed in order that the teachers of Economics in this country may be able to make an impression not only on the Government but also on the Economic thought of the country. If we adopt a policy of co-operative effort and if we eschew all feelings of rivalry, envy and jealousy there is no reason why Indian Economists should not find an honoured place among the Economists of the world."

"One last word. In appraising the study of Economics we should not ignore the value of ideals. Hard-headed though we may be we are not hard-hearted, I hope (applause). The usefulness of ideals should be recognised by all of us. And I think we ought to be actuated by the highest of ideals which to my mind is service of our Motherland and of humanity (cheers)."

Mr. Kale proposed a vote of thanks to the President and eulogised the manner in which he had conducted the proceedings of

the Conference. The vote of thanks was carried by general acclamation.

Doctor Banerjea then thanked Prof. Kale for the kind words in which the latter had referred to him and proposed a vote of thanks to the Punjab University for inviting the Conference to Lahore and to those in charge of the management of its affairs for the excellent arrangement made for the comfort and convenience of visitors. He congratulated Messrs. Bhalla, Sondhi and Thomas and all the volunteers for all that they had done and to which the success of the Conference was mainly due.

The Conference concluded its session with a few words from Mr. D. N. Bhalla who spoke on behalf of himself and his co-workers. He thanked the members and the delegates for the excellent way in which they responded to their invitation and for co-operating with the local officials and volunteers to make the conference a success.

Mr. Bhalla also thanked the Vice-Chancellor, Mr. Woolner, for his help and guidance given at all times and most ungrudgingly, and also the other co-workers and the volunteers for showing a true sporting spirit and for playing up wonderfully well at a considerable sacrifice of their time and convenience.

OURSELVES

Mr. S. K. Rudra handed over charge of the Managing Editorship of the *Indian Journal of Economics* to the present Managing Editor in April 1930. He had been the Managing Editor for about six years. We take the opportunity of noticing his services to the *Journal* in this issue because it is the chief issue of the volume.

During the period that he was in charge of the *Journal* Mr. Rudra devoted himself with earnestness and honesty to the service of this organ. Under him the finances of the *Journal* improved considerably. Mr. Warburton, his immediate predecessor in office, left him with Rs. 114-12-3 as cash in hand, Rs. 160-7-5 in current account, and Rs. 1000 in fixed deposit account. In April last when we took over charge the cash in hand stood at Rs. 110, the current account at Rs. 242 and the fixed deposit account at Rs. 4000. Then, the agreement between the Departments of Commerce and Economics of the Allahabad University, that are responsible for issuing the *Journal*, and the Indian Economic Association whose organ it is, was put on a sound basis to the mutual satisfaction of the parties. Also the *Journal* came out as regularly as the exigencies of the situation permitted.

Mr. Rudra also rendered considerable service to the *Journal* by writing regularly notes on Labour for it.

We are certain Mr. Rudra's services to the *Journal* will be appreciated by all those connected with it especially by the members of the Editorial Board.

Although Mr. Rudra has given up the Managing Editorship, we are glad to note that he continues as one of the Editorial Board and is of great help to us.

Profit and Loss Account for the year ending 31st May, 1930

	Rs.	a.	p.		Rs.	a.	p.
To Printing 1995-0-0 / 624-15-0	2,619	15	0	By Subs. to Vol. X...	2,917	3	0
,, Paper 607-13-0 / 90-6-0	698	3	0	,, Sale of Back Nos.	659	0	5
,, Postage...	590	0	0	,, Advertisement ..	120	0	0
,, Stationery & Office	60	0	0	,, Misc. Income ...	400	0	0
,, Salary	810	8	0	,, Int. on F/D ...	104	15	0
,, Bank's Commission	9	8	0	,, Due from Members (I.E.A.) ...	48	0	0
,, Misc. Expenditure	3	0	0	,, Due from I.E.A.	59	5	0
,, Depreciation ...	60	0	0	,, Due from K.M. Khatri & Co. ...	30	0	0
Rs.	4,851	2	0	Rs.	4,338	7	5
				Loss c/o to B/S.	512	10	7
Total Rs.	4,851	2	0	Total Rs.	4,851	2	0

Balance Sheet as on the 31st May, 1930

	Rs.	a.	p.		Rs.	a.	p.
Net worth (Capital)...	3,971	2	2	Fixed Deposit ...	4,000	0	0
Subs. to Vol. XI in advance	513	0	0	Cash in Bank ..	242	3	10
Loan from V. S. League	200	0	0	Cash in hand ...	110	3	9
Indian Press	624	15	0	R.M. Sinha ...	100	0	0
Bishambhar Nath on paper a/c	90	6	0	Bhagwati ...	21	0	0
				Members of I.E.A.	84	0	0
				Association ...	59	5	0
				Equipment 300-0-0 *Less* Dep. 60-0-0 ...	240	0	0
				K.M. Khatri & Co....	30	0	0
				Rs.	4,886	12	7
Rs.	5,399	7	2	Loss b/f from P/L a/c ...	512	10	7
Total Rs.	5,399	7	2	Total Rs.	5,399	7	2

DAYA SHANKAR DUBEY, *Treasurer.* RADHA MOHAN SINHA, *Accountant.* G. D. KARWAL, *Managing Editor.*

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FLUCTUATIONS OF RIVER AND ECONOMIC LIFE IN A DELTAIC REGION

BY

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The Ganges though a relatively old river has proved a great rover and land-breaker in the deltaic region where great shiftings of population and prosperity have taken place even within the historic period. Formerly the Ganges passed through Purnea, Rajshahi, Dacca and Barisal districts, and a chain of *jheels* and morasses which extend from Purnea to the sea even now mark the old bed of the Ganges. The Ganges then forsook this course in favour of the channel through which the Bhagirathi now passes. The Ichhamati and the Koosi then came into existence, occupied portions of the forsaken channel of the Ganges, and followed into the Brahmaputra. The Ichhamati, a name which is still used for different rivers in Dinajpur, Nadia, Jessore and Dacca became a most important river, probably the different Ichhamatis formed parts of the said river, and was all the way the continuation of the older course of the Ganges. On the banks of the Ichhamati the most ancient Portuguese settlements grew up Rampal, the ancient capital of Bengal, was situated near the junction of the Ichhamati with the Brahmaputra. Not far from the

river Iswaripur the ancient capital of Pratapaditya was also located. For hundreds of centuries the main stream of Ganges flowed through the channel of the Bhagirathi or the Hooghly. Karnasuvarna, Navadwip, Katwa, Saptagram, Triveni, were ancient and famous cities on its banks, and the Ganga-Sagar, where the river met the sea had been a sacred place of pilgrimage. Towards the west, the direction of the Bhagirathi was circumscribed by a belt of stiff clay and beds of nodular limestone, but in the east the river changed its bed from time to time. The Ganges again shifted its course eastward and its first important step in this direction was the Nava-Ganga. The river is marked in old maps all the way from Damorda on the Ichhamati in Krishnagar district to the morass in the Barisal district above the Haringhata Channel. Above Damorda it passed through the Meherpur subdivision and the disconnected embankments known as the Laltakuri embankments in Murshidabad probably mark the site where it took rise from the Bhagirathi. In the sixteenth century the Ganges shifted its course further to the east and excavated the channel known as the Padma, which has now become the main course. Probably this eastward movement of the Ganges was due to the denudation of trees—the jungle slopes in north and west, which led to an early silting up of the historic channels. Barind as well as Rayha, North and Western Bengal were settled and populated much earlier. The Burhi Ganges was the earlier channel of the Ganges, and was described by Manrique as the famous Ganges. Dacca situated on the banks of the Burhi Ganges, rose to be an important trade centre and became the royal capital in 1608. Ralph Fitch describes Dacca in 1856 as abounding in rice, cotton and silk goods. The author of the *Riaz-us-Salatin* describes Dacca during the last years of the eighteenth century thus: "This city is on the banks of the Budhiganga, and the Ganges, named Padma flows three 'kos' distant from this city."[1] In 1801 Dacca was estimated to

[1] Translation by Abdno Salaru, p. 39.

have a population of two lakhs. Towards the end of the eighteenth century there were great floods the effects of which were far-reaching on the land surface of Bengal. It is during floods in the delta, when the whole country is one stretch of inland sea and river banks disappear, that the rivers usually change their courses. There was a great flood in 1770, when the Damodar inundated large portions of Central and Western Bengal. The Damodar then left its old channel which joined the Hooghly near Katwa in Burdwan District and joined the Hooghly after passing through Balasore 35 miles below Calcutta. The decline of the Hooghly has since been very rapid.

In 1787 the Tiesta floods worked even greater havoc in Northern Bengal. The Tiesta formerly flowed to the Ganges, but the floods forced a larger passage for themselves to the Brahmaputra of which the Tiesta has since been a tributary. Almost a hundred miles separate the old from the new confluence at Phulchuri Ghat.

At that time the Brahmaputra flowed far away to the east through Mymensingh, and joined the Meghna at Bhairab Bazar. A still older channel of the Brahmaputra which was of great sanctity passed through Kalagachi and Rampal, the capital of Ballal Sen in the Dacca district and joined the Meghna at Rajbari. Rampal was situated on the western bank of the river Lohitya, which is the ancient name of Brahmaputra. It is probable that the whole of the channel of the Brahmaputra to the south of Agrasindhu having silted up, the river took an easterly direction and joined the Meghna first at Narsingdee through the Arialkhan Channel and then at Bhairab Bazar. The continual process of elevation of the tract of old alluvium lying between the old bed of the river and the Arialkhan and the great earthquake of 1762 are responsible for the eastward course of the Brahmaputra. But even this was temporary. A similar process of silting up on a large scale seemed to have been going on in the upper reaches of the Brahmaputra, and a large volume of water was by now

flowing through the Jenai or Jamna Channel. This was probably partly due to the changes occurring in the Madhupur jungle, partly to the effects of the Sylhet *bils*, but the consummation of the change was largely effected by the violent floods of the Tiesta. Since 1787 the main stream of the Brahmaputra has followed the Jamna river joining the Ganges at Goalando and the other streams are silted up and useless for irrigation. About the beginning of the nineteenth century, it occupied its present bed and flowing almost due south joined the Ganges somewhere near Goalando, and effectually checked its further progress eastwards. At the time of the Revenue survey it was found that further south the two rivers have deserted the Arialkhan bed and have gone away eastwards and later still they joined the Meghna at Rajbari. In its upper reaches the Meghna is known as the Surma. It flows between Sylhet and Mymensingh, and between Dacca and Tippera and joins the Ganges between Narayangunj and Chandpur. The combined river enters Bakarganj with a width of some ten miles, but it then opens like a fan, forming three channels with two great inland wedges in between two of which reach the Bay independently. The western channel Ilsa Tentulia river, which is a continuation of Arialkhan bed has been shoaling for years. It is inevitable that the Arialkhan bed which was formerly the main channel will decline as one of the many of the internal rivers of Bakarganj. Great changes have been going on in the estuary. In the mainland of Bakarganj formation is practically complete although the level of the land will still no doubt slowly rise. Within a century the main stream of the Meghna has moved twenty miles eastward. The great rivers are now concentrating their attention upon the watershed which divides this main land from Chittagong, and the view is held strongly that the twentieth century will see the development of the eastern part of the present estuary into a more or less solid block of land.[2]

[2] See Jack, Bakarganj Settlement Report, p. 2.

Before we discuss the effects of the constant changes of the courses of rivers in the delta, let us pause for a moment to consider the causes of such changes. Fergusson in a very interesting account of the recent changes in the Gangetic Delta points out that one great peculiarity of the deltaic rivers is that they oscillate in curves, the extent of which is directly proportional to the quantity of water flowing down the channel. Owing to this oscillatory movement the current strikes alternately on its right and left banks, and as a practical consequence there is found on one side of the river an almost perpendicular bank more or less elevated above the stream, according to the season, and with deep water near it, and on the opposite side a bank shelving away so gradually as to occasion shallow water at some distance from the margin; a succession of this state of things is observed in going up or down the river. At every point where the current strikes the bank there is a tendency of the river to force its way through it, and should the current be sufficiently strong to force itself through the opposite bank, and should the land beyond the bank have a greater slope than the bed of the existing channel, a new channel is sure to be formed. The condition as regards the slope of the land, though not the immediate, is the most important cause of the shifting of river-channels in the deltas and it is fulfilled thus.

The silt borne by a river, which owing to its passing through a comparatively level tract of country has turned from an excavating into a depositing agent, is accumulated partly on the sides, thus gradually embanking the river, and partly on its bed. These two things go on simultaneously till the banks having been raised over the inundation level, almost the whole of the silt that is not carried to the sea is laid on the bed of the river, which is thus gradually raised, and at length it becomes higher than the low land beyond the raised banks of the river. The river then falls into this, and going through the same process it fills that depression and then goes on to the next; after a long cycle of years it comes back again to the country it at first left. In passing

through a country which has thus been abandoned by a river we meet with a succession of raised grounds marking the positions the river banks occupied at different times, and the land between them sloping in the direction opposite to that which the river took in shifting its course.

The rivers begin the work of land-formation and man completes it. Thus man first settled on the tracts which are covered now by the older alluvium. Such tracts have now become more or less high land interspersed with ridges and the rivers here are hill torrents subject to sudden floods of rain; they never inundate the country for any length of time. Thus the region does not possess the extraordinary fertility of the newer deposits. Winter rice here can be cultivated successfully only in the depressions and drainage hollows. In the uplands embankments, ridges, tanks as well as reservoirs are necessary for the cultivation of rice. The farm practices and methods of irrigation in Gaya, Monghyr, Birbhum, Midnapore and Burdwan are similar. The uplands are used chiefly for spring crop; while in the low-lands elaborate methods of irrigation are resorted to for the success of rice cultivation. It is also not at all extraordinary that in the heart of the unfinished Delta where we have crops of the old alluvium, the farming methods and practices of Old Bengal have transplanted themselves. In the Dacca District the transplanted paddy is grown in two different classes of land. Such constant fluctuations of the river beds and river banks must produce their effects on the population: and, indeed, the consequences are larger, the mightier the rivers and the greater the changes of course. There is hardly any district in Bengal which is not strewn with old river beds and which has not its deserted cities and forgotten empires. Each such old river-bed is itself but a representative of others obliterated by nature or man; each signifies a dislocation of human settlement. Now the sand-banks and mounds whisper a tragedy of abandonment, flood or disease. Karnasuvarna, Tamluk and Danton now marked by small mounds, Gaur reduced into a dense

forest from a city on the roofs of whose buildings one could walk miles in any direction. Triveni, once a famous commercial emporium now a mere bathing ghat. Nadia, the old capital of the Sen kings, swept away by a sudden change in the course of the Bhagirathi in the beginning of the nineteenth century, Sonargaon on the Meghna the ancient Mussalman capital of Bengal and an important port, but reduced to a village at the time of Akbar, Murshidabad, the last capital of the Nawabs of Bengal and Cossimbazar, the busy silk town and health resort of the East India Company, now malaria-stricken villages,—all testify to the vagaries of the rivers. The Padma in particular has been a great destroyer, and, in one portion of the channel called the Kirtinasa because the sport it made of Sripur, the far-famed capital of Kedar Roy, one of the last independent rulers of Bengal and the hero of a hundred naval fights. Political power, industry and trade have shifted in the history of Bengal with the constant changes that the river courses have undergone and are undergoing still in an unfinished delta like that of Lower Bengal. Not less far-reaching have been the effects on settlement and cultivation.

Agriculture is difficult in the older alluvium and easy in the new. Thus as the rivers advance capturing more and more fresh land from the sea man follows in their wake and successfully takes up the work of land-reclamation. Thus civilisation is carried ever onward by the current of the land-forming rivers. The greater fertility of the new alluvium brought down by the new active rivers leads to an enormous multiplication of population along their banks, thus civilisation is kept always on the move. The upper and western portion of the delta in the meanwhile becomes moribund when the rivers that built it die or deteriorate. Both fertility and population diminish in the inactive delta, but a new prosperity emerges in the Eastern tracts which a few decades back were covered with dense forests, and interspersed with swamps and lagoons, now gradually filled up by the active rivers. The

transformation is effected by a process which is somewhat as follows: There is very little high land in the region occupied by the new alluvium, the only elevated parts being narrow ridges on the banks of the larger rivers. Such ridges are due to the stupendous amount of silt hurled by the river; sometimes these are sandy and in a state of constant change, hardly allowing man to obtain a foot-hold. But often these are stable and fertile. At first these are used as pasture grounds, but gradually agriculture and settlement become permanent here according to the age and fertility of the new deposits. Belts of trees grow along the banks and stabilise the settlement; the interior of the plain becomes gradually studded with villages built upon artificial mounds of earth raised above the height of the inundation. These little islands vary in extent, some of them affording room for huts of two or three families of cultivators with their cattle, while others are of considerable size and covered with villages and gardens. In the lower delta there are no village sites. Each hamlet consists of four to six houses (to each house a family); these are built of mat and thatch on a high plinth, composed of earth thrown up from the surrounding moat; they are enclosed by a wall of palms, bamboos, arecanuts and *mandar*. Such hamlets cluster usually along the banks of the smaller streams so that there might be less danger from inundation. From such settlement the land gradually slopes inwards often meeting a similar incline from some other river; and chains of basin-shaped marshes, frequently of great extent are thus formed. The entire tract is traversed by numerous streams and offshoots of the rivers and by marshes and *jheels* and is subject to annual inundations which leave a top-dressing of inexhaustible fertility. Thus the land of the active delta may be classified as follows: (1) The *chars* of the oldest formation present much the same appearance as the main land; there are villages consisting of little groups of houses surrounded by *mandar* trees and palms with intervening stretches of rice-field. The varieties of rice grown here are usually *aus* and transplanted

aman under conditions of flush alternating with floods when it does not exceed a height of say 2½ feet in the flood season. (2) The newer *chars* are marked by the absence of trees, and consist generally of a uniform cultivated plain intersected with numerous *khals*, with here and there bare patches where the soil is unfit for cultivation, *aman* sown broadcast or transplanted is usually grown in these formations. (3) Yet younger formations are the banks barely above water, but covered with grass on which herds of buffaloes may be seen grazing. In the immature *chars* of the large number of active rivers in the lower delta, there is an abundant collection of grass which is used for fodder and thatching. Gradually vegetables like water-melons, Khira, cucumber, etc., are grown in succession. *Boro* rice is grown in *chars* and swamps where the flood is too deep for *aman* during the flood season and which becomes too hard and dry for *aus* and jute during spring. (4) Youngest of all are the banks of mud and sand emerging from the river only when the tide is low, and still of no value but to the fishermen. All along among these *chars* and islands may be seen traces of constant change, upright or overhanging banks marking the places where the river is cutting away the dry and gently sloping banks those where new land is forming.[3] The soil of the newer *chars* requires little preparation. Cows are used as well as bullocks for ploughing, and on the *chars* buffaloes are employed. It is estimated that three pairs of bullocks can plough an acre in six hours. A pair of oxen would suffice for cultivation of a plough of land equal to five or six acres and that a pair of buffaloes could manage nearly twice that area.

In alluvial formations owing to the excess of deposit on the edges, the water flows inwards from an elevated surrounding and enclosing ridge to a central basin, from whence it is conducted to the exterior, along water-courses piercing through this surrounding

[3] Webster, District Gazetteer, Noakhali, p. 3; also Jack, Economic Life of a Bengal District.

ridge.[4] This order is followed not merely in tidal districts like. Bakarganj, but in all alluvial formations, however elevated, as for example in Sylhet. Each of the drainage circles or districts possesses its central basin or reservoir of swamp towards which the surface slopes in every direction from the exterior. On the exterior edge of the area where it abuts in the large tidal river (which everywhere divide one drainage circle from another), the land is well raised and covered with villages. The intermediate space is covered with rice cultivation, and the centre is a lake or *bil* varying in size and depth with the season of the year. The older alluvium on the banks of the rivers is usually a coarse light sand, on which jute and *aus* paddy are more successfully and extensively grown. Throughout the new delta, *aus* is grown on the comparatively high and sandy *deaara* lands. The *aus* paddy grows to a length of three to four feet only and cannot be grown on lands on which more than two feet of water accumulate during the early monsoon rains; it does not also rise with the rise of the water, as in the case of *aman*. The soil on the margin of the *jheels* is often a stiff black clay, well suited to the long-stemmed rice, which lives and thrives under several feet of flood water. All the low lands, sides of the marshes and low plains in the delta on which from 5 to 15 feet of water accumulates during the rains, are selected for the *aman* crop. The *aman* has a remarkable power of growth, frequently shooting up to the extent of one foot in the course of a single day as the flood-water rises and in the case of some varieties, such as *rayenda* and *baoa*, attaining a length from 10 to 20 feet. Crops and farming practices are adapted to the changing character of the land and the soil. In the shifting *chars* which rise and disappear within a few months quick-growing varieties of *boro* paddy which require little human attention are grown. In some of the islands of the Padma large areas of land are sometimes to

4 Calcutta Review, Vol. XXXIX, No. 78, Pellew's article; Fergusson, Recent Changes in the Ganges, Journal of the Geological Society of London, Vol. XIX.

be seen almost on the same level with water at a low tide, covered with mud so soft and deep that there is great danger of one going there being buried alive. The peasant here has discovered a method of cultivation to grow *boro* paddy on it, known as the *lepi*. No ploughing, harrowing or anything of the kind is needed, nor is it possible on such lands. All that is necessary is simply to sow the seeds broadcast and plaster (lepa) the mud over it. This is not, however, an easy task owing to the unstable nature of the ground. The peasant who sows has to support him elf on plantain trees or a raft of bamboo. The land is flooded at every tide, but that does not injure the seed on account of the mud over it being plastered.[5] In the Meghna *chars* as well as *boro* is sown broadcast when the *chars* are uncovered in April, and remain a moist mud until the water rise again. The rice grows very quickly as it must be reaped in the *chars* before the heavy flood. It is capable of growing very fast as much as six inches in a day and in the *bils* the stem is extraordinarily long sometimes being 15 and even 20 feet. The crop is, however, very precarious as a very sudden rise will completely destroy it. In more sandy areas grasses such as *Kaun* or *Karcha* are at first grown with the intention of assisting the clayey matter; sweet potatoes can be grown with success at an early stage and it is only after an existence of several years that crop of jute or *aman* can be grown with success.[6] In some areas in Bakarganj the cultivators grow an early rice called *shatiya* because it is said to remain in the fields for 60 days. The land is ploughed and reploughed quickly five or six times and the seeds are sown broadcast. Thus man has learnt to fight even with such a changing scene. Instances are not uncommon of the same *char* being twice washed away and twice reformed and inhabited within the short

5 For a description of agricultural methods and practices in the delta, see A. C. Sen, Report on the System of Agriculture and Agricultural Statistics of the Dacca District which is freely used in this chapter; See also Jack, Bakarganj Final Settlement Report.

6 See Ascoli, Final Settlement Report of Dacca, p. 15.

space of twenty years. Thus man has lived and thrived on the mighty rivers which form the main source at once of his water-supply, of drainage and irrigation; and his health and crops suffer when the river brings a low flood. We read in the Dacca Survey and Settlement Report: "The land depends for its fertility on the deposit of silt left by the flood; the crops depend for nourishment on the waters of the flood. A low flood will accordingly fail to fertilise and irrigate the high lands; a normal flood will bring water and leave silt behind it; an excessive flood will drown or sweep away the crops; and instead of depositing silt will scour away the earth: silt is deposited more by slow than by fast moving water." Further when the flood is low there is no flush or drainage of the higher lands and stagnant water accumulates in pools, causing malaria and epidemics of cholera and small-pox in the deltaic tract.

The change from a less advanced to a mature stage of formation of alluvium also governs largely the crops and farm practices. In tracts where the delta formation has sufficiently advanced, a stiff clay ultimately supersedes a more or less coarse sand. This change is very gradual and slow but it ultimately changes the cropping. *Aus* paddy supersedes *aman* and such crops of the upland such as cotton. Oil-seeds, gram and pulses become more and more important. A long-period settlement also leads to the localisation of village industries and workshops and permanent markets usually arise on the banks of rivers which have ceased to be wayward. But fortune is very precarious in a deltaic tract. Industries and markets shift elsewhere when the rivers seek new channels. Thus the delta is full of vestiges of abandoned market places. When the creeks become too shallow for navigation, fleets of bazar-going boats would come and go with the ebb and tide and introduce a brief animated scene in a backwater. Elsewhere the people go off for a whole day in their long dugouts or canoes, which every family must possess for the purchase of daily necessaries, to a distant *hát* which periodically assembles. Probably a dozen

markets will be within boating distance and thus there is an opportunity to compare prices. Such journeys are not without their risks but the people take to the water like fishes. In the new delta, the rivers, creeks and other water-courses are the highways and boats are by far the most important conveyances. The boats used for goods or passenger traffic are of considerable size and there are various types and forms, adapted to the needs of navigation in the various rivers. The boats which the cultivator's family possesses are of the smallest size and are without any cover or fixed helm. Such boats are mostly used during the rains in bringing fodder for the cattle and harvested paddy from the fields or in going to the markets or for friendly visits. The poorer classes of cultivators make use of rafts made of plantain trees and earthen tubs. Roads are few and short, indeed these especially when bridged are not much wanted in the delta and sometimes prove detrimental to country traffic. In the district of Bakarganj with an area of 2,427 square miles, there are now 387 miles of road only. Canals and artificial water-courses are more useful in the rural economy of the delta; and new creeks used to be excavated by old kings and zamindars to save distance for boat communication or to avoid dangerous journey across the larger rivers. Jack graphically describes the risks of a journey in this part of the world: "High winds range for weeks together so that light craft cannot venture upon the big rivers; yet for a journey on foot, you must needs be at once an amphibian and a monkey, prepared at every quarter mile to wade a shallow stream or swim a deep one, to balance giddily on a bamboo bridge where a false step means a bath in only mud and finally to reach a wide river and to wait, it may be for hours, until the reluctant boatman of a passing boat consents to ferry you across." In a year of normal flood the cultivators need not reap the winter crop in water as the *aus* fields are high and dry, but jute must be reaped from under waist or breast-deep water and from boats. Sometimes when the flood is high and heavy, the most assiduous toil of the peasant, working

day and night under water cannot save the harvest. Thus economic life is most uncertain. All the labour and capital invested in homesteads and plots would often go to nothing when the treacherous river cuts the bank and swallows up the settlement. A homestead in the delta is therefore seldom permanent for two or three generations on the banks of the larger rivers. Houses are seldom built of brick and stone as in the upper delta but are corrugate or tin sheds, which can be easily removed in boats for settlement elsewhere when the river threatens both life and property. On the other hand, while the rivers often devour villages and cultivated fields they would also bring a fortune quite unaware by throwing up new sandbanks adjoining one's plots and homesteads and thus what requires generations to build comes as a gift from heaven within a few short years. Then there arises litigation among superior or inferior landlords and tenants. Indeed, whenever sandbanks or small islands are thrown up in the midst of the stream or near one of the banks, there are contending claimants who assert their rights and take possession of such lands in a incredibly short time; this sometimes leads to serious disturbances of the public peace. Life under these conditions is full of strange happenings, it has its under-currents, tides and whirlpools like those of a river leading man he knows not whither like a wisp of straw.

Not merely agriculture and the general social and rural life of the people, but the movements of trade and commerce as well are stamped with the delta-building activities of the rivers. The Ganges estuary has had a chequered history, with which is connected the rise and decline of the sea-ports of Bengal. About the time of the Buddha and possibly earlier, sea-going vessels used to be laden with the merchandise of the Ganges plain from Benares. The next important commercial emporium was Pataliputra situated at the confluence of the Ganges and the Son (Hiranyabaha Gk. Eranboas) which rose into importance under the Mauryas. During this period another important port was Champa (modern Champak-

nagar 24 miles east of Bhagalpur). From this port passengers used to depart for Suvarna Bhumi (Burma), and for Taprobane (Ceylon). Then across Tamralipti (modern Tamluk) which is mentioned in the Ceylonese Buddhist Chronicle, the Maha Bansa. In the Periplus (1st century A.D.) there is a reference to a port on the mouth of the river in Bengal; very probably this is Tamralipti. In 410 A.D. Tamluk was still an important sea-port and was referred to as such by the Chinese traveller, Fa Hian. But within the next two centuries the doom of this world-famous port, which throughout carried on a brisk trade with ancient Rome and the Mediterranean countries, was sealed. For in the seventh century A.D. another Chinese traveller describes it as an inlet of the sea. Thus the process of land-formation which has resulted in Tamluk's now being 50 miles from the sea had begun. By the tenth century, the channel on which Tamluk was situated and which afforded facilities of navigation was silted up. Tamluk still continued to be an emporium of commerce until the sixteenth century. With the gradual decline of its importance, Hijili came into prominence. The Portuguese settlement in Hijili (1514) seems to have been the earliest European settlement in Bengal. Ships used to anchor here from Negapatam, Sumatra, Malacca, etc. Hijili is now a littoral tract extending from the mouth of the Rupnarain along the western side of the Hooghly estuary and forming part of the Midnapore district.[7] It appears from recent surveys that one of the main lines of entry into Bengal in the past was up the Rasulpur river, thence by a channel connecting it with the present Haldi river and across by a branch of the Rupnarain, which flowed direct into that river. From the Rupnarain there was another channel going direct into the Hooghly some distance above Calcutta. It is clear from the maps of the eighteenth century that the Rupnarain was more important formerly than now and that it had two channels,—one the existing channel

7 Campos, Portuguese Bengal, p. 94.

into the Hooghly, and the other which branched off below Tamluk into the Haldi. Thus the thanas of Maishadal and Sutahata were formerly an island. In maps older than Rennell, the peninsula between the Hooghly and Rasulpur rivers, now Thana Khejri, is shown as an island. It is clear, therefore, that the march of the bigger rivers towards the eastern portion of the delta commenced about one thousand years ago. The decline of the tidal rivers Rupnarain, Haldi and Rasulpur took centuries, but this ultimately brought about the downfall of Tamralipti. After the decline of Tamralipti, several important sea-ports came into prominence in Western Bengal—Samatata and Harikela are mentioned by Chinese travellers, and we also find the mention of Bangela by an Italian traveller, Barthema (1505 A.D.) and a Portuguese traveller, Barbossa (1514 A.D.). Samatata is probably the track of the delta where Bakargang now exists. It is probable that Harikela and Bangela were situated in the western bend of the estuary and that their sites have been destroyed by new land-formation. Bangela is described as a large and beautiful port inhabited by the Moors and situated just at the entrance of the estuary. Further inland Saptagram on the confluence of the Saraswati and Bhagirathi which was more accessible to the larger ships maintained its eminence for several centuries as the most famous port of Eastern India. Indeed, the celebrity of Saptagram goes back to the first or second century of the Christian era when it was the capital of Radha by the eastern boundary of which the Ganges flowed. It was called Gangely Plolemy, and was described as the 'Port of Ganges' in the Periplus of the Erythrian Sea, the sea being then much closer to Saptagram than it was in the later centuries. Even in the fourteenth century [Ibn Batuta (1346)] described its situation as "on the shore of the great sea," but close to the junction of the Ganges and the Jumna (evidently at Triveni). Merchants from various parts of India as Kalinga, Trailanga, Gujrata, etc., used to come to this sea-port for trade, and it was from here that muslins, spices and other goods were exported to

Rome.[8] In the fourteenth and fifteenth centuries the trade of Saptagram or Satgaon suffered an eclipse. Gaur, the royal capital of the independent Sultanate of Bengal, had already been a magnificent city five or six centuries before Christ but she rose into her greatest opulence in the fourteenth and fifteenth centuries. The Meghna was then the principal route to the capital of Bengal, the other being up the Bhagirathi. Chittagong, situated at the mouth of the Meghna was then the chief port of Bengal, and was named by the Portuguese, Porto Grande (great port) in contradistinction to their Porto Pegueno (small port) in Satgaon.[9] Another important port on the Meghna was Sonargaon, now situated away from the banks, 15 miles east of Dacca. This was the ancient Muhammadan capital of Bengal. Sonargaon flourished as the seat of the Muhammadan governors of East Bengal from 1296 to 1608 and was famous for its cloths and muslins. The capital was removed to Dacca in 1608 on account of the raids of the Ahoms, the Arakanese and the Portuguese pirates. Gaur was reduced by the Ganges receding westwards, leaving long shallow marshes behind it. Fever followed and depopulated the city, the final epidemic of 1575 being so terrible that the dead could be neither buried nor burnt, after which the few survivors fled from the place. Within half a century the population of 200,000 described by Portuguese travellers had disappeared.[10] With the decline of Gaur, Chittagong declined in position as a sea-port, and trade was again diverted to Saptagram or Satgaon, then situated on the river Saraswati, which branched off from the Bhagirathi below Triveni and joined it higher up. The main current of the Bhagirathi till the middle of the sixteenth century streamed

8 See N. L. Dey, Geographical Dictionary of Ancient and Medieval India, p. 178.

9 Moreland thinks that the Porto Pegueno refers to the Estuary of the Hooghly and the Porto Grande to the Estuary of the Meghna which extended from the Karnaphali river to the immediate neighbourhood of Dacca.

10 De Barross, quoted by O'Malley, Bengal Census Report, 1911, p. 25.

through the Saraswati.[11] By the sixteenth century, however, the Bhagirathi diverted its current through the main channel, and caused the silting up of the Saraswati to such an extent that the sea-going vessels had to anchor, writes the Venetian traveller, Ceasar Frederick (1567 A.D.); at Betor, the site of which is not identified as yet, several miles down the river from Saptagram. A temporary market sprung up in this place every year when the outgoing ships were loaded with the merchandise of Bengal. Frederick adds that the *bazras* (boats) had to wait for the tidal current and that it took eight hours from the mouth of the Ganges to reach Saptagram with the full tide. With the silting up of the Saraswati during the first half of the sixteenth century and further deterioration of the Hooghly, Saptagram became extinct as a port. Abdu-l Hamid, the official historian of Shahjahan refers (in his Badshah-namah) to the ruin of Satgaon (Saptagram) (Elliot, VII, p. 32). In 1660 it was described by Van den Broncke as a mere village. A magnificent delta-port which was seventeen square miles in extent now has no relics of the past except an insignificant mosque and temple surrounded by an inaccesssible jungle. A small dry creek is what remains of the Saraswati, but villagers still speak of finds of old coins and masts of sea-going vessels now and then discovered in the locality. The Bhagirathi is now shallow and full of *chars* and dangerous sandbanks. After completing the land-formation in westernmost part of the delta, the rivers began an era of violent reconstruction in the estuary south-east of the Bhagirathi. In the northern reaches of the Ganges, after the decline of Gaur, Tanda thrived for centuries as the capital of Bengal and as a commercial emporium. Ralph Fitch (1586) mentions the important town of Tanda as standing at a few miles distance from the Ganges, as the adjacent country including many villages was once washed away by it.[12] Here he found a great

11 Compos, History of the Portuguese in Bengal, pp. 21-22.

12 Puchas X, p. 181.

trade and traffic of cotton and cotton cloth. Bacla, Sandwip, Sripur and Chandecan in the south were also important markets of rice and cotton cloth in the medieval period. Bacla, Pargana Chandradwip in Backergunge District, was long the seat of a line of Hindu zamindars, belonging to the group of chiefs known as the Bara Bhuiya who are described as the ' twelve sons of Bengal.' These zamindars first ruled in Kachua and subsequently Madhavpasa. At Shujabad, on the Nalchiti river a big fort was built by Aurangzeb's brother. The island of Sandwip leapt into prominence as an exceptionally fertile and prosperous spot in the sixteenth century, and its history under the Portuguese and the Arakanese is full of heroic adventures and cruel deeds. Sripur situated south of Sonargaon at the confluence of the Meghna and the Padma also played an important part in the history of East Bengal, being the seat of the kingdom of Chand Rai and Kedar Rai. It was a sea-going port, for Fitch embarked from here for Pegu on a ship passing down the estuary. It was later on destroyed by the Padma. Chandecan has been identified sometimes with Dhumghat or Jessore, the seat of the kingdom of Pratapaditya. European travellers have, however, referred to the river of Chandecan which appears to have been a part of the river Hooghly or one of its channels near Saugor Island. The principal centres of ship-building at the time of Mir Jumla and Shaista Khan (1664) appear to have been Hooghly, Baleswar, Murang, Chilmasi, Jessore and Karibari where " as many boats were ordered to be built and sent to Dacca as possible."[13] The district of Jessore is still full of marks of old river beds and of the memories of Iswaripur, Dhumghat, Jahajghat and Chakeri now hardly to be recognised as scenes of naval glory. In the meanwhile the Ganges showed a distinct eastern advance, and this meant an inevitable deterioration of the Bhagirathi and other rivers of the old delta. When the main river, probably in the sixteenth century, quitted the channel of the Bhagirathi, and started eastwards to seek another

[13] Mookerji, A History of Indian Shipping and Maritime Activity, p. 227.

outlet, the Ichhamati, the Jalanghi and Mathabhanga became in turn the main stream. But the river tended over to the east: and at last aided perhaps by one of the periodic subsidences of the unstable land surface it cut across the old drainage channels, still on its eastward march, until it was met and checked in its advance by the mighty volume of water of the Brahmaputra. The result of the eastward march of the main stream was the diminution in bulk of the rivers taking off from it on the south, and this decline began more than two hundred and fifty years back. Towards the end of the seventeenth century we find the following important places on the Ganges mentioned in the *Khulasat-T-Tawarikh*: Akbarnagar (Rajmahal), Maqsudabad (Murshidabad), Mirdadpur (not identified) and Khizrahati (31 miles east of Murshidabad) and Dacca. We read, "After some leagues, it (the Ganges) parts into two branches: one flowing east, gets the name of Padmavati and falls into the ocean near the port of Chatgaon; the other turning south branches off into three channels, of which the first is called Sarsati, the second Jumna, and the third Ganga. This third with its thousand branches, joins the ocean near the port of Satgaon. The Sarsati and Jumna also fall into the ocean at the same place." The Bhagirathi became unfit for navigation by the end of the seventeenth century. In 1666 Taverneur wrote that Bernier had to go overland to Cossimbazar from near Rajmahal as a sand-bank at its mouth made the river unnavigable. In the estuary of the Hooghly or Bhagirathi too navigation was also full of risks. Methwold writes (about 1620) that in Bengal "we are mere strangers: the coast is too dangerous, and our shipping too great, to adventure there among so many shelves and sands." The Portuguese, Dutch and English merchants during this period brought down goods in small vessels along the Hooghly and transhipped them at Pipli or Balasore. This course was uneconomical. Thus in 1660 the English Company authorised experimental trips up the river by sea-going ships.[14] The decline of the Jalanghi,

[14] See Moreland, From Akbar to Aurangzeb, p. 48.

Bhairab, the Mathabhanga, and finally of the Bhagirathi took several centuries. From the sixteenth to the eighteenth centuries important European trading settlement thrived on the Bhagirathi in Murshidabad (Farashdanga), Cossimbazar, Bandel, Hooghly, Chinsura, Chandernagore, Serampore, as well as on the banks of the Karatoya and the Atrai.

The Karatoya was an active river in the beginning of the nineteenth century; in 1810 it was described as "a very considerable river, of the greatest celebrity in Hindu fable" Formerly it carried the waters which now flow through the channel of the Tiesta, joining the Atrai in Dinajpur, finally falling into the Ganges. In 1787 the main stream of the Tiesta broke away to the east. Since the Karatoya has rapidly declined and it is now a river of minor importance, little used for navigation. In 1801, Colebrook stated that the Gorai and Chandni were the only channels in the western portion of the Ganges delta which were navigable throughout the dry season, and that the Bhagirathi and Jalanghi could not be relied upon. The Jalanghi, the Mathabhanga, the Bhairab, the Churni all declined during the last century and a half. The Madhumati and the Garai were active channels of the Ganges before the latter's diversion into the Padma but now most of them have become a network of moribund channels. The gradual but continuous rise in their beds has caused a general derangement of levels so serious as to affect the natural drainage of the whole region, and made malaria a devastating endemic. This has led to a phenomenal economic decline in the districts of Murshidabad, Nadia and Jessore. The Bhagirathi has continued to decay in its upper reaches. It was only a few years ago that river steamers ran straight up from Calcutta to Allahabad along the Bhagirathi; now there is not enough water in the river to take any but the lightest boats, and this only at certain seasons of the year. In spite of dredging and training operations intended to prevent the deposition of silt at the two mouths through which headwater is supplied from the Ganges, which have been

carried on more or less for nearly a century it will be not long before the mouths will become extinct or seriously reduced in size. The bed of the Bhagirathi near Chhapghati is now raised above that of the main stream; and for several miles sand-banks intervene between the Ganges and the Bhagirathi channels. It is only during the rainy season that the Bhagirathi can now receive water from the Ganges; in summer it is fordable in many places, and sometimes the current ceases altogether, and the channel becomes full of weeds. Further, the Jalanghi and Churni, in common with the Bhagirathi and supplying it with headwater are also deteriorating because of the tendency of the main Ganges river to march eastwards. More water comes into the Bhagirathi from the Rupnarain than from the Ganges and the inflow from the Jalanghi and Churni are negligible, except during the rains. Even these are not sufficient to explain the volume of the river up in Calcutta or Barrackpore. What keeps the Bhagirathi going is not water from other rivers but percolation.[15] The river is really a deep irregular trench in the soil and it fills up with water on the same principles that deep tanks in Bengal fill up. It retains its depth partly because of the tides that prevent the silt from settling but chiefly because of the dredging that is continued constantly. If the dredging were stopped the river would first become a swamp and then cease to exist. There is clear evidence that the delta-building functions of the rivers immediately to the east of the Bhagirathi and the Hooghly have ceased; the main Ganges river now carries its burden of silt-laden water away further to the east, beyond Kushtia. This is indicated not only by the decline of the whole Bhagirathi river system, but also by the fact that the rivers in Khulna, which is a new delta-formation, do not now act, as once they did, as active distributaries of the Ganges and the silt they carry is brought down only by the drainage of Jessore District and part of Faridpore. The diversion

15 Kim's Notes in the *Statesman*.

of the Damodar has destroyed the last chance of saving the Hooghly. It is probable that the Bhagirathi and the Hooghly now will decline much faster, and that the river would be liable to predominant tidal action which will show itself in the formation of shoals. Curtailed supplies of headwater may cause the wider portions of the river to decrease in width as the waterway adapts itself to new conditions in maintaining its regime, and as these supplies finally cease the river will probably become extinct as such, and remain only as a tidal estuary bereft of any headwater. At Sakrail, four miles below Calcutta, there was formerly sufficient water for the deepest draught vessels to cross at low water. Now at the end of the dry season there is only about 17 ft. 6 in. of water available. Middleton bar, 82 miles off Calcutta, is essentially a sea-bar, and not affected by the ebb-tide scour. Here also there has been deterioration, which has brought down the level to 14 ft. at lower water. Ships carrying merchandise are increasing in sizes and in the depth of water they draw. Thus large ships have to arrange long in advance their times of arrival and departure with the Port authorities at Calcutta. Cases are not unusual of ships being compelled to leave their moorings earlier in order to go over the Middleton bar with a full flood tide. If shipowners in various parts of the world begin to have doubts about the advisability of vessels calling at Calcutta, its preeminence as a shipping port will be lost before long.[16]

The steady decline of active deltaic condition of the region will in all probability bring about the ruin of Calcutta as a port. The Hooghly in its lower reaches will gradually become as shallow and full of dangerous mud-banks as the Rupnarain, the Rasulpur and the Haldi channels through which seagoing vessels formerly entered the port of Tamluk; and the port of Calcutta will one day

[16] See C. J. Wilkinson's letter to the *Statesman* in connection with the Howrah Bridge Controversy, June 2, 1927; Discussion at the Rotary Club on the Deterioration of the Hooghly, March 18, 1930.

be remembered like ancient Tamluk or Satgaon only in the pages of history. It is noteworthy that the question of the disposal of the Calcutta sewage has recently become very serious with the decline of the local deltaic river the Bidhyadhari, which is connected with shallow salt lakes back of the city and into which the sewage of Calcutta is discharged. Up till 1830, the Bidhyadhari was one of the most active channels of the Gangetic delta and one of its numerous spill *khals*, viz., the Central Lake Channel extended itself right up to the city of Calcutta. But both the Bidhyadhari and the Lake Channel began to deteriorate at an alarming rate, such deterioration being probably facilitated by the construction of a few canals for the purpose of navigation which cut into the natural line of drainage. Quite a number of artificial canals have been constructed to connect East Bengal with Calcutta, and, indeed, this is one of the most important systems of river canal in the world judged by the large volume of traffic. (1) In 1777 Tolly canalized an old bed of the Ganges from its confluence with the Hooghly at Hastings and carried the so-called Tulley's Nullah east to meet the Bidhyadhari at Samukpota thus giving access to an inner route which leads eastwards from Port Canning. (2) In 1810, an old channel through the salt water lakes was improved and led westwards by what is now known as the Beliaghata Canal. (3) In 1826 and 1831 a number of tidal channels were utilised and connected by cuts to form a new route between Calcutta and the Jumna Canal, and the circular canal from Chitpur was constructed to meet old eastern canal at Beliaghata. (4) The new Cut was opened in 1859 leading from Ultadenga south-east to Dhapa on the Beliaghata Canal. (5) In 1899 the Bhangar Channel was canalised, completing the inner channel which was commenced in 1831.

It is for the engineers to find out which of the large number of cuts and channels has by cutting across the natural lines of drainage accelerated the process of silting up of the Bidhyadhari. or whether the Bidhyadhari would have declined of its own ac-

count because of the natural decline of the river system of which it forms an appenage. It is probable that the engineers' unskilful interferences with natural drainage by means of artificial canals, locks and roads quickened the forces of decay of the moribund river system with which the Calcutta's future is so vitally bound up. Now at least one-half of the Bidhyadhari has died, and unless emergency dredging is resorted to, the other half will cease to be a drain for the Calcutta sewage and storm water, and as a government committee reported, " the city will soon become uninhabitable." Such dredging became imperative immediately the salt lakes were reclaimed, and the waterway became bereft of headwater supplies and subject to predominant tidal action. It is probable that due to a decline of the true deltaic conditions in the Barind when the river system deteriorated, disease and pestilence overwhelmed the ancient city of Gaur. The death of the Bidhyadhari is a symptom of much wider deltaic problem with which the future existence of Calcutta is intimately connected. It is, indeed, strange that the question has not aroused the attention it deserved, and has provoked not co-operation, but an acute controversy among the authorities concerned. Thus the Irrigation Department having to some extent usurped from Calcutta its natural line of drainage for the purpose of inland navigation has now definitely refused to maintain the Bidhyadhari, while the Local Self-Government Department and the Calcutta Corporation have not come to a mutual understanding as regards each other's responsibilities. Meanwhile the city has been throwing into the Bidhyadhari, whether dry or flowing, sixty million gallons of sewage a day. The author of the *Akbar-i-Muhabbat* thus describes Calcutta as seen by him in the last years of the eighteenth century, " Calcutta is a large city, situated on the banks of the Bhagirathi. The land on account of its vicinity to the sea, is very brackish and damp." Calcutta, like all deltaic cities, was first built along the natural levee, but has now expanded over the marshy back country. With the deterioration of the river system the

whole of the area south-east of Calcutta is now in a water-logged condition. During the heavy monsoon rainfall, the surface slope tends to convert the area back from the river into a lake. A costly system of covered drains collects surface and ground water to a depth of several feet but cannot cope with the heavy shower during the rain, and often the city is flooded, and garbage and other refuse float in the public thorough-fares where boats would ply. With the silting up of the salt swamps, and the Bidhyadhari Channel, the problem of disposing of storm water and sewage has become acute. Cholera, small-pox and other diseases are rife as a result; and the general death-rate of Calcutta continues to be very high. Perhaps the building of canals, which collect waste water and serve as highways as well as in Rotterdam, or the distribution of pumping plant throughout the city as in New Orleans another delta city which might accelerate the flow of rainfall water and refuse into the Bidhyadhari might defer the problem of sanitary disposal for the present.

The changes that the estuary undergoes towards the east are forestalled by the changes in the position where the Ganges and the Brahmaputra meet. The following ancient confluences seem to have been located. The Chalan beel in the Natore subdivision, Rajshahi, and the Airal beel in Dacca mark the old junctions of the Ganges and the Brahmaputra in successive epochs in the past; and the morass in Barisal, which in Rennell's map is described as impassable by land in most parts, that of the Ganges with the Meghna. In the past Vikrampur was the most important seat of settlement in the Barind, and was studded with Sanskrit schools and colleges. Capital cities such as, Rajpal, Sonargaon and Rajnagar arose in successive epochs in this region. Formerly both Dacca and Faridpur districts were the most active centres of deltaic land-formation; now with the age of the river Padma and the advanced formation of its alluvium, the centre has shifted to Bakarganj and is shifting today to Noakhali. In the eighteenth century the Ganges occupied roughly the bed of the present Arial-

khan and the Brahmaputra joined the Meghna in Sylhet. The combined waters of the Meghna and Brahmaputra swept to the sea under Noakhali and it is probable that their western bank was unbroken land from Bikrampur to Mehendiganj and from Mehendiganj to Sahabazpur both of which latter are now more or less islands. At that time the Ganges flowed somewhat parallel on the other side of this shaft of land. At their mouth was the Island Sandwip, the abode of the Portuguese pirates, which was described by a Venetian traveller as one of the most fertile places in the country, densely populated and well-cultivated. In 1625 Herbert described it as one of the fairest and most fruitful spots in the whole of India. About 1730 the Brahmaputra and the Meghna swung westwards and flung out a channel which cut through the shaft of land separating them from the Ganges, joined the Ganges and twisted its course from south-east to south. Miles and miles of land were added then to the sea-coast of Noakhali and a great part of Sahabazpur was destroyed. Further south the Bakarganj coast was swept away to reform rapidly as a chain of islands on the eastern side of the river. In 1744—66 the Ganges joined the Meghna at a point near Mehendiganj in the district of Bakarganj, more than 45 miles in a straight line south of the present junction. In 1794 it joined the Meghna in close proximity to its present junction under the name of the river Kirtinasa. This was due, as we have seen, to the diversion of the Brahmaputra. In 1765 the Brahmaputra joined the Meghna at Bhairabbazar. Within 1790 the Brahmaputra circumvented and joined the Ganges near Jafarganj in Dacca instead of near Mehendiganj in Bakarganj. The Padma has shown a continuous tendency to cut towards the north and east. This north-east tendency has had its effect at the junction with the Meghna whose clear waters have at the same time, by arresting the Padma silt, tended to block up the channel. By the year 1830 the Meghna had arrested the north-east tendency of the Padma, which was compelled to find a more southerly channel; by 1840, however, the north-east tendency again asserted itself,

only to be defeated again about the year 1870, to such an extent that the former main channel of the Padma was often fordable between 1873—83. By 1893, however, the Padma again resumed the attack, and it is only in recent years that the Meghna has once more come out victorious, and is driving the Padma into a more southerly channel. At every such attack it appears the mouth of the Padma moves further north. These changes have also been felt in the estuary. The main current has turned eastwards so that the western channel the Ilsa Tentulia has begun to shoal. In the meantime, however, the chain of islands on the west has joined on to Sahabazpur. Thus this island which was once destroyed has been remade, as a prosperous settlement. Great silt-deposits have also formed land rapidly to the south and east of that island. The Settlement Officer of Bakarganj writes after his survey that it is probable that Mehendiganj and Sahabazpur will soon again be joined together by a shaft of land and that the Arialkhan will decline into one of the great internal rivers of Bakarganj. Whether it will still carry enough silt to consolidate the islands at its mouth into a compact block of land or to extend the southern coast of Sahabazpur is not so clear. On the eastern side the Sahabazpur Channel has been destroying Sahabazpur and consolidating Hatia for 15 years. As the land forms off Mehendiganj, the current should set further eastwards, ceasing to vex the limits of Bakarganj and beginning an era of violent reconstruction in the estuary south of Noakhali.

The eastern march of the river still continues. It is a far cry from Midnapur to Noakhali, from Sagar to Sandwip. But the same rivers which at first made their way to the sea at the extreme west of the great bend which marks the northern limit of the Bay of Bengal, have now concentrated their attention towards the eastern bend adjoining the Chittagong sea-coast. On the west coast of the delta the tides rise twelve or thirteen feet, on the east from forty to eighty. On the west the water is salt enough for mangroves to grow for fifty miles up the Hooghly, on the east the

sea-coast is too fresh for that plant for ten miles south of Chittagong.[17] Westward the country is full of the memory and marks of ancient sea-ports and sacred river beds which have been deserted in the eastward movement. Westward we have decadent agriculture and dwindling population, in the east we have phenomenal agricultural prosperity and expansion of population in a country which has been lately a bare muddy expanse with no trees or shrubs but what are planted. The movement is gradual but inevitable.

Man is absolutely powerless to deal with stupendous forces which the mighty rivers bring to bear upon the land. Thus land-formation and reformation must go on and the intervention of man can effect no change. It is estimated that if a fleet of about 2,000 ships, each freighted with 1,400 tons of mud, were to sail down the river every hour of the day for four months continuously, they would only transport to the sea a mass of solid matter equal to that borne down by the Ganges in the four months of the flood season. Where rivers are active in their delta-building functions alluvion and diluvian with changes in the course of the main channels, wait for no man. Having completed the silting up and land-formation of the northern and western part of the delta the mighty rivers are now swinging eastward in the estuary south of Noakhali and west of Chittagong. It will take more than a century to build the main land of Noakhali and rebuild the islands of Hatia and Sandwip. Today the most active and violent of the Meghna Channels is that which flows between Sahabazpur and Hatia. There is also another furious current which will play a prominent part in the re-making of Sandwip and the Chittagong coast. As the forces of the formation of alluvium stabilize themselves and the rivers cease to meander in Dacca and Bakarganj, the towns of Munshiganj, Narayanganj, Chandpur and Jhalakati will leap into prominence. In the meanwhile the form-

[17] See Hooker's Himalayan Journal, Vol. II, p. 390.

ation of sand-banks in the lower reaches of the Hooghly will make it less and less adapted to the requirements of ocean traffic and navigation which Calcutta today satisfies. Perhaps Port Canning might appropriate to some extent the maritime and commercial activity of Calcutta and prolong the fight with unfavourable deltaic conditions. Thus the Sahabazpur river or the Sandwip Channel will probably take the place of the Hooghly; Sandwip and Chittagong might revive not as abodes of pirates who ruined and laid waste a large portion of Lower Bengal but of merchants who will open out new sources of wealth for the people. The building of the spacious bridge across the Padma at Saraghat and the recent selection of Chittagong as a first class port are noteworthy steps in this consummation. But the rivers build or destroy in decades, not years, and by the time the eastern part of the bend eclipses the glory of the western the rivers in the upper reaches in their uninterrupted course of land-building also will have destroyed many great cities which now adorn their banks by withdrawing waters from them and giving life and prosperity in new directions. The river makes or unmakes land and with it man and his works all along its course. Its powers for building or destroying are, however, mightier in the delta than in the upper reaches, and where it has undertaken a long arduous journey these are simply stupendous.

KASHMIR DURING THE MOGHUL PERIOD AN ECONOMIC SURVEY

BY

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Srinagar, Kashmir.

Introductory.

The history of Kashmir, dating from 3000 B.C., is one of the oldest in the world. Recording the political events of their reigns was considered a duty by the kings, and, consequently, a host of historians was employed to continue the *Rajatarangini.* But, unfortunately, no information is given regarding the social and economic condition of the people. The old historians never thought of the fact that the history of a country was made by the *people* and not only by the kings. Kalhana, to whom we owe the knowledge of ancient Kashmir, also lacks in this respect, though Dr. Stein, by his most praiseworthy research work, has been able to glean some facts about the economic condition of the people of ancient Kashmir.

In the following pages, I have collected, from various sources, some facts about the economic condition of Kashmir during the Moghul period. I am fully conscious of the fact that full justice has not been done to the subject. If, in spite of this, some light will be thrown on the history of Kashmir during that period, my labour will be amply rewarded.

Moghul period has got a special interest for the student of economics. The presence of lasting and beautiful works of the Moghuls, creates in us a desire to know more about the authors of these wonderful

masterpieces. Side by side with this desire, no one who has seen the Shalimar and the Nishat gardens, has looked with wonder on the huge wall round the Hari Parbat, and has visited such other works throughout the length and breadth of Kashmir, can hold back the desire to know something about the *people* during that time. As it is, our curiosity is satisfied by the romantic stories connected with that period. But it is the work of an economist to reveal the true nature of affairs and the hard realities of life.

Moghul period is important on account of other reasons also, chief amongst which is the patronage and encouragement that many indigenous Kashmir industries received at the hands of the Moghuls. Opening of Kashmir to the rest of India is an additional cause of the importance of this period. Before Moghuls became the masters of the Valley, Kashmir was an independent country, self-sufficient in all the necessaries of life and a small lonely country cut off from the world by high and snowy mountains. During the Moghul period improved road communication was set up and *serais* were built for the convenience of travellers. Political unity and the numerous visits of the Moghul Emperors made Kashmir part and parcel of India. This had great economic consequences.

"Akbar's conquest," writes Dr. Stein, "marks the commencement of modern history of Kashmir. . . . Though the conservative instinct of the population was bound to maintain much of the old traditions and customs, yet the close connection with a great empire and the free intercourse with other territories subject to it necessarily transformed in many ways the political and economical situation of the country."[1]

1 Introduction to *Kalhana's Rajatarangini*.

Though there exists a good number of histories dealing with the Moghul period yet this does not make easier the task of an economic researcher. There is very little information of any economic value. The confusion of dates, names, and numbers adds to the difficulty, though the official records like *Ain-i-Akbari*, help to check independently the statements of other historians. Records like *Tuzk-i-Jehangiri* while chiefly giving the experiences of kings who are not in a position to correctly depict the condition of their subjects (being on too high a social level) are yet of distinct economic value in so far as the condition of the upper class is concerned. Moreover accounts of travellers like Bernier are considerably enlightening. Again, there are many Persian histories of Kashmir dealing with this period, e.g., *Tarikh-i-Hassan* and *Tarikh-i-Firishta*. In these also there is very little information regarding the economic condition of the people. An economic researcher is, therefore, obliged to content himself with, and make the best use of, the little he has got, supplementing the statements, here and there, with his own observations and conclusions.

The Hindu kingdom in Kashmir came to an end in 1315 A.D., when Sultan Shams-ud-Din, by his unscrupulousness, ascended the throne. His dynasty ruled for 236 years and was succeeded by Chaks, a warlike race in the Kashmir Valley. The Chak failed to take root (being in power for a brief period of 25 years) on account of the internal dissensions and the absence of any leader among them. The kingdom of Kashmir was wrested from the Chaks by the Moghuls who, in spite of the aforesaid weaknesses of their opponents, conquered them with very great difficulty.

The Moghul rule may be said to begin in Kashmir from 1586 A.D. Previous to that no doubt, the country

was occupied by them several times but, what with the severity of climate and the conspiracies of their enemies, their stay in the valley had not been long. Their rule practically came to an end in Kashmir, as elsewhere, with the death of Aurangzeb. Our study will, therefore, be limited from 1586 A.D. to 1707 A.D.

The Country and the People.

The country. Geographically Kashmir during the Moghul period was not the same as it is today, in that the word is often nowadays used for the territories of H. H. the Maharaja Bahadur. During that period it was the Valley proper, viz., from Verinag in the south to Kishen Ganga in the north and from Tibetan mountains in the east to Pir Panjal in the west. In our study, therefore, Kashmir is used in this restricted sense only.

Then there is another confusion that we should avoid. In the Moghul period Kashmir is used for Srinagar also. The latter name being a Hindu one had come into disuse by order of the Muhammadan rulers. Thus Bernier says, "The capital of Kashmir bears the same name as the kingdom."[2]

Now about the political geography. The Jammu provinces were practically independent. Ladakh and Gilgit, though friendly for some time towards the Moghuls, were quite independent. So were the provinces of Dardistan. Thus only this small valley was in the hands of the Moghuls. Consequently the economic influence was hampered by the political differences; the Moghuls taking particular care about the free intercourse of the Kashmiris, Dogras, Ladakhis and Dards.

Kashmiris are not migratory by nature and therefore the majority of villages and hamlets, towns and

2 *Travels in the Moghul Empire*, edited by Constable and Smith.

cities, were at the same places as they are today. Thus Senda Brari, Vejbrara, Pampur, Zewan, Khriu, Acchawal, Matan, Aishimuqam, Ishibrari, Verinag, Biru, Halthal, Lar, and many such villages described by Abul Fazl have changed but little. Similarly Bernier who visited Kashmir in the time of Aurangzeb, describes many places with such an exactness, that we are tempted to believe that he visited the valley only last year.

Srinagar was the capital of the country and was in a flourishing condition. Lacchamkul, Mar and the Jhelum flowed through it. There were other important towns as well. Bijbihara and Anantnag were in a prosperous condition. Pampur, Khoihama and Paraspur were also towns of importance.

The census of the valley was taken by Saif Khan in or about 1670 A.D. According to that there were 12,43,033 souls in Kashmir, including 90,400 infantry and 4,812 cavalry.[3] Excepting this there is practically no record of the population of the country. Travellers, like Bernier, do not even mention whether the population was more or less dense than in other parts of India. Abul Fazl's *Ain* and the like lack in this respect. We can, however, to quote Mr. Moreland, gauge the density of population from the land revenue that was realized from the different parts of the valley.[4] Military garrisons cannot throw any light on the population problem, because Kashmir being a frontier and inhabited by warlike races like Chaks, should require more military strength than any other province in the rest of India. We are, therefore, compelled to measure the density of population by the revenue returns only. For this happily we have some matter.

The number of people.

[3] *Tarikh-i-Hassan*, MSS. in possession of Pandit Anand Koul, Ex-President of the Srinagar Municipality.

[4] *India at the Death of Akbar*, by C. E. Moreland.

From the revenue statistics of Abul Fazl, we find that in the Maraz tract the revenue realized was comparatively more than in the Kamraz tract. Again in the Maraz tract, Vihi Pargana yielded more than either Itch or Brang. Wular Pargana yielded more than either Phak, Kuthar or Matan. In the Parganas south-east of Srinagar, Adwin yielded the largest amount of revenue, Nagam came next and Verinag last of all. In the Kamraz tract Krohen yielded the largest amount with Bangil following close.[5] Inderkot came last of all. We, therefore, come to the following conclusion, that:

(a) Maraz tract was more populous than the Kamraz tract.

(b) in the Maraz tract, Vihi, Wular and Adwin were comparatively denser in population than the adjoining parganas.

(c) in the Kamraz tract, Krohen and Bangil Parganas were more populous than any of the sixteen parganas.

It may be noted here that with slight modifications these results hold good even at the present time.

Abul Fazl, Jehangir and Bernier record that Kashmir was full of green fields of crop and that little of the land was left uncultivated. On the other hand, there is no record showing that the Kashmir grain was exported. This proves that the population of Kashmir was dense to the full productive capacity of the valley. Again Abul Fazl says, " Notwithstanding its numerous population and the scantiness of the means of subsistence, thieving and begging are rare."[6] This remark proves that the population of the valley was denser than many

5 *Ain-i-Akbari*, translated by Col. H. S. Jarret.

6 *Ibid*,

parts of the rest of India. Secondly, it shows that the valley must have been overpopulated because notwithstanding the thorough cultivation of land and the absence of exports of grain "the means of subsistence were scanty." This conclusion is also supported by the remark of Bernier about Aurangzeb's visit to Kashmir, "That a scarcity of provisions may not be produced in the kingdom of Kashmir, the king will be followed by a very limited number of individuals."[7]

The classes of population.

The Muslim element entered into Kashmir in the first quarter of the fourteenth century of Christian Era.[8] Formerly the population consisted of either Hindus, Buddhists or Jains. During the Moghul period Islamic element did not predominate to such a degree as at present, even though Raintan Shah and Sikandar the Iconoclost had converted thousands of Hindus to Islam.

The Hindus were called Bhatts and they were chiefly concentrated at Srinagar, Vihi, Mattan, Itch, Nagam, Inderkot, Patan, and Telgam. Amongst the Hindus were about 2,000 Rishis.

As regards the Muhammadans, Abul Fazl says, "The majority of the narrow-minded conservatives of blind tradition are Sunnis, and there are some Imamis and Nur Bhakhshis." They were present in all parganas in varying numbers. In the *Ain-i-Akbari* they are chiefly shown at Dacchinpura, Zainager and Patan. There were amongst them many castes such as Khamash, Shal, Sihar, Bakri, Sansi, Doni, and Chaks, who were present at Brang, Wular, Banihal, Bangel, Verinag, Dunso and Krohen respectively. There were also hilly tribes like Thakor and Naik who lived in Bottu and Showur Parganas.

7 *Travels in the Moghul Empire*, Constable and Smith's edition,

8 Introduction to the *Rajatarangini*, by Stein.

About the economic division of the population, very little is known. The high civil and military officials who were generally Moghuls comprised the upper class. Moreland says that there seems to have been no middle class during the Moghul period.[9] But in Kashmir the Pandits who were employed in the various state departments naturally represented that class. The lower class consisted of the unskilled labourers like coolies, *shawlbaffs* and the like. There were few manufacturers and big entrepreneurs as many of the principal productive trades and manufactures were state monopolies.

Administration.

Kashmir formed one of the subhas of the Moghul Empire. The form of administration must have, therefore, been the same as in other subhas. The Moghul administration in India was carried on either as *kacha* or *pucka*. *Kacha* administration was one in which the governor and other officials of a subha received pay from the Imperial Exchequer and submitted the nett revenue to the same. The *pucka* administration meant one in which a favourite of the emperor was appointed the governor of a subha and he had to pay a certain amount to the emperor, carrying on the administration as he liked.

It is certain that the administration in Kashmir was a *kacha* one. This is amply proved by the fact that there were numerous subedhars during the Moghul period. The *pucka* form, moreover, was chiefly in vogue in Southern India.

The subha of Kashmir had a varying number of *sirkars* in the Moghul period. Each of these was in charge of a *kotwal*. He had to look after the security

9 Moreland, *Op. cit.*

of the people and had also to conduct other civil duties like sanitation, public-works, etc.

The collection of revenue and the duties connected with that line were in the hands of a *Mansebdhar* who was in charge of a *sirkar*. This post may be compared to the one of a Tehsildhar nowadays. Villages also received the proper share of administration. The institution of village officers dates from the times of Moghuls.

The security of the city or town people was to some extent assured on account of the presence of the *kotwal* and the *Mansebdhar* who both had judicial and executive powers. But it is not doubtful that many of them took undue advantage of their authority. As Moreland remarks, " bribery was almost universal in India at this time."[10] Political power was to no small extent used for religious persecution. Considering the long distance that was to be travelled from Kashmir to Agra and the absence of any means of quick transportation, the high Moghul officials could tyrannise over the people without any fear of the latter's appealing to the emperor. This was, however, to some extent mitigated by the occasional visits of the Moghul Emperors to Kashmir.

As regards the security in the country, the administration of justice was wholly in the hands of the *Mansebdhar*. Kashmiris regard crime as something abominable, something to be detested from the core of one's heart and therefore travellers and merchant caravans were safer in Kashmir than in any other part of India. Abul Fazl admits it frankly and Bernier also supports this assertion.

Before Kashmir came under the sway of the Moghuls, the Sultans and the Chaks had fixed two duties, namely, *baj* and *tamga*. The former was loosely known for

10 Moreland, *Op. cit.*

any toll or tax. The latter was (1) a demand in excess of the land revenue, or (2) inland tolls."[11] Akbar exempted the people from these two duties. There were only *Sair-i-Jihat*[12] cesses. In the time of Aurangzeb, Jizya or poll tax was levied on the Hindus.

Weights and Currency.

To understand the economic history of a period, it is absolutely necessary to know the units and sub-units of weights and currency. Akbar fixed the unit of weight as *man* which was divided into 40 equal parts, each part being called a *seer*. The *man* of Akbar was not, however, equal to our present maund, but equal to 56 lbs. only. ⅛, ¼, and ½ of a *seer* were also used. Though these were the standard weights, all the weighings in Kashmir were done in *Kharwars* and *traks*, a *Kharwar* being equal to 3 *mans* and 8 *seers*, Akbarshahi. Even the payments in cash were estimated in *Kharwars* of *Shali*. Thus the present-day units of *Kharwar*, *trak*, *manuit*, *seer* and *pav* were in vogue then also.

The *tola* in this country was 16 *mashas*, each *masha* being equal to 6 *surukhs*, as against 8 *surukhs* in the rest of India.

Kashmir not only had its own mint, but the currency in vogue here was different from that of India. The standard coin of Akbar was a silver rupee, in weight equal to the present rupee, but not equal in purchasing power. A rupee was equal to 40 *dams*. In fact, every transaction of business was done in terms of *dams* on account of their high value.

Here the standard silver coin was *Ropa-sasuno*, 9 *mashas* in weight. The *pantsu* was of copper, equal to

11 Jadunath Sirkar, *India of Aurangzeb*.

12 In its original purport, the word signifies moving, walking or the remainder: from the latter it came to denote the remaining or all other sources of revenue in addition to the land tax from a variety of imports, as, customs, travellers' dues, house fees, market tax, etc.—Wilson's *Glossary*.

$\frac{1}{6}$th of a *dam*. This was also called a *kaserah*. One-fourth of this was called a *bahagni*, of which again one-fourth was called a *shakri*. Tabulating:

4 shakri	=	1 bahagni						
4 bahagni	=	1 pantsu	=	1/6 dam	=	1 kaserah		
4 kaserah	=	1 rahat	=	2/3 dam				
40 kaserah	=	1 sasuno	=	20/3 dams				
1½ sasuno	=	1 sikah	=	10 dams				
100 sikah	=	1 lachh	=	1000 dams				

Thus we see that the highest coin was a *sikah* equivalent to 10 *dams* and the lowest was a *shakri* equivalent to 1/96 of a *dam*. The price of a *Kharwar* of *shali* was 29 *dams*. From this we can get an idea of the purchasing power of a *dam*. Taking the present value of a *Kharwar* of *shali* as Rs. 4-8-0, the purchasing power of a present rupee is equivalent to the purchasing value of 6½ *dams* or approximately to $\frac{1}{6}$ of an Akbar-shahi rupee, during the Moghul period. In other words, we must recognise the income of Rs. 5 in Akbar's time as equal to Rs. 30 in 1930.

The exchange value of an Akbarshahi rupee was then 2s. 3d. in terms of the then currency of England and 30 *sols* (a *sol* being equal to ·9 of an English penny) in terms of the then French currency.

Agricultural Production.

The immemorial tradition in Kashmir considered the whole of the land as the property of the ruler. Of some portion of the *khalsah*[13] land the sovereigns divested themselves by grants in *jagirs* for various periods. Though before the country came under the suzerainty of the Moghuls, " one-third had been for a long time past the nominal share of the state, yet more than two

Land tenures.

[13] Lands of which the revenue was the property of the government—Wilson's *Glossary*.

shares were actually taken." Akbar fixed the share of the state as one-half. The system of revenue collection was by appraisement and division of crops, assessments for crops paying special rates, not being the custom of the country.

Qazi Ali, one of the first Moghul governors of Kashmir fixed the revenue at 30,63,050 *Kharwars* and 14 *traks*. Taking the prices current for several years past, the Qazi struck an average of the aggregate, and the *Kharwar* in kind was ascertained to be equal to 29 *dams* and the *Kharwar* in money was fixed according to the former rate of 13 *dams*. This meant a great advantage to the farmer who, if he submitted the revenue in kind, would be credited at 29 *dams* a *Kharwar*, while if he wished to pay in cash would have to pay only 13 *dams*. It could not be ascertained whether the farmer had to pay the revenue in cash or in kind, or whether the choice of paying in one or the other was left to him. Most probably he was required to pay a certain sum in cash and the rest in kind.

The revenue amounted to 7,46,70,411 *dams*, out of which 1,20,22,183 *dams* were paid in cash and the rest in kind.

Asaf Khan who succeeded Qazi Ali, fixed the revenue at 30,79,443 *Kharwars*, of which 10,11,330½ *Kharwars* were paid in money. "Although," writes Abul Fazl, "the revenue in *Kharwars* of Asaf Khan was in excess of that of Qazi Ali, yet calculated in *money* the receipts are less, because he estimated the *Kharwar* in money which is of lower relative worth."[14]

Following are the tables showing revenue paid in cash and kind by different parganas, in the time of Akbar[15]:

14 Jarret's *Ain-i-Akbari.*

15 *Ibid.*

THE MARAZ TRACT

Containing 22 Mahals. Revenue: 1,792,819 *Kharwars* equivalent to 35,796,122½ *dams* (Rs. 8,94,903), of which 670,551 *Kharwars*, 12 *traks* were paid in money, equivalent to 8,885,248 *dams* (Rs. 22,131-3-2). Cavalry: 1,620. Infantry: 4,600.

City of Srinagar. Revenue: 342,694 *Kharwars*, 12 *traks*. In money, 342,996 *Kharwars*, 8 *traks*; in kind, 1,698 *Kharwars*, 4 *traks*.

Parganas East of Srinagar

Pargana	In kind		In money	
	Kharwars	*Traks*	*Kharwars*	*Traks*
Itch	144,102	0	62,054	4
Brang	78,834	4	8,769	8
Vihi	209,632	8	161,968	8

Parganas North-East

Pargana	In kind		In money	
	Kharwars	*Traks*	*Kharwars*	*Traks*
Wular	128,656	4	12,605	8
Phak	71,111	12	17,402	8
Dachinpara ...	75,153	0	6,902	12
Khawarpara ...	45,226	8	3,575	8
Kuthar	37,479	4	3,221	12
Maruadwen ...	...	...	5,041	0
Matan	190,043	5	18,062½	...

Parganas South-East

Pargana	In kind		In money	
	Kharwars	*Traks*	*Kharwars*	*Traks*
Adwen ...	101,432	4	14,815	12
Itch ...	98,369	0	14,377	4
Banihal ...	40 horse-loads and 6,435	0	...	...
Bottu ...	3,515	0	4,235	8
	besides transit duties remitted.			
Devasar ...	85,644	8	822	8
Zainapur ...	15,875	4	1,790	1
Suparsaman ...	6,133	0	2,003	4
	besides dues on firewood			
Showar ...	39,167	0	8,550	12
Shukroh ..	45,224	0	12,757	8
Nagam ...	189,770	12	22,576	4
Ver ...	12,270	8	838	0

The Kamraz Tract

Containing 16 Mahals. Revenue: 1,218,799 *Kharwars*, 12 *traks*, equivalent to 26,316,918 *dams* (Rs. 657,922-15-2). In money: 272,954½ *Kharwars*, equivalent to 3,616,632 *dams* (Rs. 90,415-12-9). Cavalry: 1,590. Infantry: 16,965.

Parganas North-East

Pargana	In kind		In money	
	Kharwars	*Traks*	*Kharwars*	*Traks*
Zainager	13,253	0	32,055½	0
Khoihama... ...	83,670	12	15,522	0

Parganas South-West

Pargana	In kind		In money	
	Kharwars	*Traks*	*Khārwars*	*Traks*
Inderkot	9,553	4	7,238	0
Paraspur	18,830	12	3,352	8
Patan	4,799	4	523	0
Bangel	115,233	12	20,280	4
Biruh	57,098	12	13,383	0
Telgam	15,415	12	4,435	4
Dunsu	53,219	8	17,038	8
Daochinkhawar ...	30,222	4	20,653	10
Sair-ul-Mawazi .	192,045	4	18,556	12
Khoi	22,945	0	370	0
Kamraz	342,844	4	103,725	4
Krohen	115,474	0	29,779	12

The following table shows the amount of revenue (in Akbarshahi rupees), derived from Kashmir in different years:

Year	Revenue	Sarkars	Mahals
	Rs.		
1594 A.D. (*Ain*) ...	15,528,26	1	38
1648 A.D. ...	3,750,000	...	. .
1654 A.D. ...	2,859,750	...	...
1666 A.D. (Bernier)...	3,500,000	...	...
1695 A.D. (Dastur-i-Amal) ...	3,157,125	1	46
1697 A.D. ...	3,505,000	...	...
1700 A.D. ...	6,947,125	...	...
1720 A.D. ...	5,320,502	7	75
Tieffenthaler ...	2,500,000	...	...

The agricultural system. The staple food of the Kashmiris during the Moghul period was rice, fish and various vegetables. "Though *shali* rice is plentiful," remarks Abul Fazl, "the finest quality is not obtainable." Wheat and *mung* were also cultivated, but gram and barley were unknown. Some portions of land were irrigated artificially. The numerous rivulets and springs supplied water to the rest of the fields. The valley did not wholly depend upon rains. Some *parewas*, like Zukru and Mattan were supplied with water by channels, most of which were constructed in the time of Zain-ul-Abdin. "From the sides of these mountains gush forth innumerable springs and streams of water which are conducted by means of embanked earthen channels even to the tops of the

numerous hillocks," thus wrote Bernier. Again, "The numberless streams which issue from the mountains maintain the valley and the hillock (*Karewas*) in the most delightful verdure. The whole kingdom wears the appearance of a fertile and highly cultivated garden."

Saffron was cultivated chiefly at Pampur where from ten to twelve thousand *bighas* of land were under cultivation. At Paraspur also there were some saffron fields. The method of cultivation is given very clearly by Jehangir in his Memoirs.[16] There was a curious superstition then in existence. When the cultivation began, the farmers worshipped at the Zewan spring and afterwards poured cow's milk into it. If as it fell, it sank into water, it was considered a good omen and a plentiful crop was expected; but if unfortunately, it only floated the peasants considered it an adverse omen.

In the *Waqyat-i-Jehangiri*, it is asserted that in an ordinary year 400 maunds of saffron were produced. Half belonged to the government and half to the cultivators.

During the time of Akbar the price of Kashmir saffron was from Rs. 8 to Rs. 10 per *seer* (1½ lbs.) and in Jehangir's time also about the same. We might again deduce from it the purchasing power of a rupee during the Moghul period. Taking ordinarily the price of a *seer* (1½ lbs.) of saffron as Rs. 60, we come to the conclusion that the purchasing power of a rupee was then from six to seven and half times the value at present.

Water-melons and some other vegetables were cultivated on the floating gardens of the Dal. Water-melons of Kashmir were so famous that the Moghul

16 *Tuzk-i-Jehangiri*, translated by Rogers and Beveridge.

Emperors specially got them taken to Agra for their and their courtiers' dishes.

"Magnificent *chinar* trees planted throughout the valley," writes Sir W. R. Lawrence, "all owe their origin to the Moghul vogue, and though it has been said of the emperors, that they were stage kings, so far as Kashmir was concerned, they would be entitled to the gratitude of posterity if only for the sake of the beautiful plane tree. In the vicinity of the Dal there were 777 gardens in the Moghul times, and the roses and the bed-musks brought in a revenue of one lakh of rupees per annum."[17]

Kashmir produced a great variety of fruit in abundance. They were much better than Indian fruits. Besides plum and mulberries the fruits were numerous. "Melons, apples, peaches and apricots are excellent," remarked Abul Fazl. Though grapes were in plenty, finer qualities were rare. Bernier who travelled with Aurangzeb from Agra to Kashmir is all praise for the fruits. "The whole ground is enamelled with our European flowers and plants and covered with our apples, plum, apricot, and walnut trees, all bearing fruits in great abundance. The private gardens are full of melons, radishes, most of our potherbs and others with which we are unacquainted." But as compared with French varieties the Kashmir fruits do not seem to have reached the same level. "The fruit is certainly inferior to our own," continues Bernier, "nor is it in such variety; but this, I am satisfied, is not attributable to the soil, but merely to the comparative ignorance of the gardeners, for they do not understand the culture and grafting of trees as we do in France."[18] He was,

17 *The Valley of Kashmir*, by Sir W. R. Lawrence, p. 196.

18 Constable and Smith's *Travels*, p. 397.

however, certain that with the introduction of better grafts from foreign countries and by paying more attention to planting and soil, the Kashmiri fruit would attain the same degree of perfection as the French.

However, in 1590 A.D., Mohammad Quli Ifshar, the Daroga of the gardens, first of all grafted Kashmir fruit with peaches brought from Kabul. The experiment succeeded and after that grafting was widely practised.

The *zamindars* kept bee-hives. The honey was exported to India and China.

Milk and butter was in abundance and though Kashmiri cows were smaller in size than the cows in India, they yielded larger quantity of milk.

Fish formed the chief ingredient of food of the Kashmiris during the Mughul period. Fish were generally caught in the Jhelum, the Achar lake and the Nala Sind. Spears were the chief instruments of fishing. Placing baskets against the course of a brook was also another method of catching fish. Nets do not seem to have been used then. No tax was levied on fishing.

Peasant and labourer.

From all this it appears that the peasant was in fairly comfortable circumstances. The enormous amount of revenue paid must alone convince us that the peasant worked hard and got a fair remuneration. We can in no way give an accurate picture of a peasant's life during the Moghul period, but suffice it to say that for the most part, he could enjoy the fruits of his labour with ease and with very little molestation from the high or petty officials.

As regards the position of unskilled labourers, we may safely assume that their condition was also fairly good. Of course, *begar* was not uncommon even at that time, but the practice does not seem to have reached

the same alarming degree as during the Pathan, Sikh and the early part of the Dogra periods. As Lawrence puts it, " The very durability of some of the buildings of the Moghuls, suggests that the work was paid for. Buildings constructed by forced and unpaid labour do not last long." We have got the authority of the inscription on the Kathi Darwaza of the wall round Hari Parbat (which was built during Akbar's time) that labour employed in constructing it was paid for.[19] When Aurangzeb visited Kashmir, all the luggage of the Royal camp was carried by Kashmiri porters from Bhimber to Srinagar. More than 15,000 of them had collected at Bhimber, some of them sent by the governor of Kashmir and the neighbouring rajahs and some had come voluntarily in the expectation of earning a little money.

The wages fixed by the emperor were 10 crowns (French) for every 100 lbs. weight.[20] The journey took five days on foot. Considering the mountainous paths and the passes that are to be traversed on this way, a *coolie* could not carry more than 50 lbs. Therefore the daily wages were 1 crown which is equal to Re. 1 of the

19 The full inscription runs as follows :—

بنائے قلعه ناگر نگر شد
بحکم بادشاه داد گستر
کرور و ده لکهه از مخزن فرستاد
دو صد استاد هندي جمله چاکر
نکرده هیچکس بیگار آنجا
تمامي یا قند از مخزنش رر
چهل چار از ظهور بادشاهي
هزار و شش ز تاریخ پیمبر

20 *Bernier's Travels*, edited by Constable and Smith.

present day in purchasing power. This being the rate of the government which must have been lower than the ordinary rate, it can be deduced that unskilled labour was fairly paid for.

Non-Agricultural Production.

Forests.

Kashmir had large tracts of forest-land and it is chiefly on account of this that wood was so cheap here. No consideration, during the Moghul period, seems to have been paid to the conservation and the proper use of forests. They were considered the property of everybody and were freely exploited. Had it not been for the enormous tracts of forest, Kashmir would now have been devoid of this natural boon—so ruthlessly did the people cut and destroy trees. If you cared, you could go to a forest, cut a tree and use it for your own purposes; or you could buy wood for a trifling sum from one who had secured it by the same process. Travellers to Kashmir had been struck with the vast amount of wood used for building and other purposes. "The houses are all of wood," wrote Abul Fazl. Similar remarks were made by Bernier. It was only during the last fifty years that proper attention has begun to be paid to the forests.

Mines and minerals.

Geologists have asserted that Kashmir abounds in mines of every sort. During the Moghul period the iron mines of Shar and Anantnag were exploited. They supplied the whole of iron and steel used in the valley. These mines were in operation only until recently.

There was a quarry of agate and oynx near the village of Khonamuh which supplied stones for the artistic manufacture of stone-work, for which Kashmir was famous.

Though there was no gold mine in Kashmir proper, there was one near Muzzafarabad. A fairly good amount

of gold for coinage and ornamental purposes came from this place. There was also a copper mine at Aishi Muqam, but it did not yield much of the metal.

Handicrafts in general.

Kashmiris are celebrated for industry and workmanship. During the Moghul period Kashmir arts and crafts had reached the highest pitch of efficiency. The Moghuls, be it said to their credit, took a keen interest in Kashmir products and encouraged industries in every possible way. Wood-work, metal-work, stone-work, and *papier machie* were the chief handicrafts of Kashmir. "The workmanship and beauty," observes Bernier, "of their (Kashmiris') *palkeys*, beadsteads, trunks, inkstands, boxes, spoons, and various other things are quite remarkable. They perfectly understand the art of varnishing and are eminently skilful in closely imitating the beautiful veins of a certain wood, by inlaying with gold thread, so delicately wrought that I never saw anything more elegant or perfect."

Paper was not manufactured in Kashmir before the time of Akbar. A small quantity began to be imported from India after that. For writing purposes birch-bark was used. Kashmiris prepared a special kind of indelible ink. The writing would last for ages, no matter to what rough use the manuscripts would be put. Thousands of valuable manuscripts of this sort were destroyed by the Pathans. The majority of the few that are still extant were found in many wells. In spite of lying in water for centuries, no harm has been done to them.

The art of building was improved during the Moghul period. The numerous beautiful Moghul gardens in Kashmir give a striking evidence of this. Of course, ancient Kashmir architecture was not in any way inferior to the Moghul, but what with the fall of the Hindu kingdom, and the tyrannies of the Sultans, and the

destruction of temples and grand buildings by Sikandar the Iconoclost, Kashmir architecture received a check and had not the Moghuls revived this art, no wonder that by now it would have been extinct.

Textile and woollen manufactures.

But the chief manufactures by which Kashmir was famous was the prodigious amount of shawls and woollen stuffs that were prepared in this country. These were the staple commodities that were exported and filled the country with wealth. Shawl industry gave employment to thousands of men, women and children. During the Moghul period this industry received a great stimulus. Akbar was very fond of shawls. He took great pains to improve this indigenous industry of Kashmir. This he did in the following four ways:

"His Majesty has ordered four kinds to be made. *First*, Toos Assel, which is the wool of an animal of this name whose natural colour in general, is grey inclining to red, though some are perfectly white; and these shawls are incomparable for lightness, warmth and softness. Formerly they were always made with the wool in its original state, but His Majesty has had some of them dyed and it is surprising that they will not take the red colour. *Second*, *sefed alcheh*, which they also call *tarehdar*. The natural colours of this wool are white or black; and they weave three sorts of them, white, black and grey. Formerly there were not above three or four colours of shawls, but His Majesty has made them of various hues. *Third*, *zerdozy*, *gulabetun*, *keshdeh*, *culgha*, *bandenun*, *cheet*, *alcheh* and *perzdar* which are of His Majesty's invention. *Fourth*, from being short pieces he had them made long enough for *jamas*.

"Formerly shawls were but rarely brought from Kashmir and those who had them used to wear them over their shoulders in four folds, so that they lasted

for a long time. Now they are worn single by people of all degrees. His Majesty has introduced the custom of wearing two shawls, one under the other, which is considerable addition to their beauty. By the attention of His Majesty, the manufacture of shawls in Kashmir is in a very flourishing state."[21]

During Akbar's time, shawls became very popular and were manufactured in numerous grades of prices, to suit the purses of both the middle and the upper classes. The price of an ordinary piece of shawl 1½ yard long was from Rs. 2 to 8 mohurs, which according to the present approximate purchasing value means from Rs. 12 to Rs. 720. Following may be quoted as examples:

Shawl *cheerah* from Rs. 2 to 25 mohurs

Shawl *foteh* from ½ to 3 mohurs

Shawl pieces for *jamah* from ½ to 4 mohurs

In the time of Aurangzeb also shawls were the fashion of the day. The Moghuls and Indians, both men and women wore them in winter round their heads passing them over the left shoulder as a mantle. Leaving the gradation of price and length aside, two kinds were chiefly manufactured. The price of the best kind of shawl piece about three yards in length and two in breadth, with ornamental embroidery about a foot in length at both ends, was from Rs. 50 to Rs. 150, which according to the present purchasing value of a rupee would be from Rs. 300 to Rs. 900. "The fur of the beaver," wrote Bernier, "is not so soft and fine as these shawls."

The Moghuls made great efforts to manufacture shawls down in the plains. In fact, during the time of Akbar there were about 10,000 workmen at Lahore. But

21 *Ain-i-Akbari*, translated by Gladwin, p. 79.

this experiment failed on account of the hot climate. Again, Jehangir and Shah Jahan took great pains to manufacture shawls at Patna and Agra but the experiment again failed. The shawl industry could not, therefore, but flourish in Kashmir during the Moghul period.

The other woollen manufactures were *pattu* and *dirma*. Kashmiris made their clothings out of these. Besides this use, *pattu* and *dirma* were also exported, but not in such quantities as shawls. Woollen cloths coming from Tibet were much better than Kashmir *pattu* and *dirma* and, therefore, were preferred in India. A *than* (ten yards) of *pattu* could be had for 1 to 2 rupees (6 to 12 rupees of the present valuation) and a *than* of *dirma* for 2 to 4 rupees.

Cotton was grown, spun and woven in Kashmir for the use of the Kashmiris themselves. It was not exported.

A good quantity of silk was produced in Kashmir. "The mulberry is little eaten,"[22] Abul Fazl writes, "its leaves being reserved for the silkworm." The eggs were brought from Gilgit and Ladakh and were reared here But "the production of silk in Kashmir was worked up locally and does not appear to have been extensive."[23] However, the little quantity of fibre that was produced was exported to India, no silk-weaving industry being present here.

Another commodity that was prepared was the Kashmiri cap. It was peculiar to this country and was called a *khub*. These caps were exported to India and the Moghuls used to wear them under their turbans. The price of this cap was from 2 *dams* to Rs. 2 (i.e., from

22 Jarret's *Ain-i-Akbari*, p. 349.

23 Moreland, *Op. cit.*

6 annas to Rs. 12 according to the present purchasing value of a rupee).

Industrial organisation.

Very little is known about the industrial organisation in Kashmir during the Moghul period. Since Kashmiris dislike change and, in fact, have very little changed, the present system must have in all probabilities, been in existence even then. Of course, there was no foreign capital in the country. For weaving of shawls and other woollen stuffs the master supplied capital and employed the skilled labour of *shawlsbaffs* and the like. As regards building and other purposes, the labourer, be he skilled or not, must have got his own tools, etc.

Wages.

Similarly we lack information as regards the wages of a skilled labourer. Considering the vast number of people employed and the low price of shawls, it is most probable that a labourer must have received low wages. This receives another support when we imagine a fairly wealthy capitalist and a poor labourer, perhaps in debt, and with no weapon whatsoever to press his demand for higher wages.

Commerce.

Trade routes

Kashmir was accessible by 26 different routes. But the chief among them were *via* Bhimber and Pakhli. These were passable on horseback. Of the first, there were three branches, viz., Hastibanj, Pir Panjal, and Tangtallah. Troops, etc., generally came *via* Hastibanj and Pir Panjal. The Tangtallah route does not exist nowadays. We might here give the various stages on these routes from Gujarat to Srinagar.

From Gujarat—

Daulatnagar—twelve miles north of Gujarat.

Bhimber—sixteen miles north, on the western bank of the Bhimber river.

Chauki Hati—Tieffenthaler places it seven miles north of Bhimber and speaks of its having a cave with two elephants carved on the rock.

Nowshera—sixteen miles north of Bhimber, on the western bank of the Tawi river.

Changiz Hati—Tieffenthaler places it four and half miles north of Nowshera.

Inayatpur—Probably Moradpur, seven miles north-east of Changiz Serai.

Rajoar—sixteen miles N.N.-E. of Nowshera.

Thanna—Thanna Bazar, twelve miles north.

Baramgala—five miles N.N.-E. There is a waterfall here.

Poshana—two miles from Baramgala.

Serai Ali Mardan Khan—three and half miles onwards.

Serai Sokhta—

Hirpur—ten miles north of Poshana.

Shadimarg or Shajamarg—six miles from Hirpur.

Khanpur—eighteen miles N.N.-E. of Hirpur and eleven miles south of Srinagar.

Srinagar—eleven miles north.

Another road passed from Rajoar to Kashmir:

Rajoar

Saifabad

Poonch—forty-two miles N.N.-W. of Rajoar.

Aliabad—between Poonch and Uri.

Uri—seventeen miles north of Poonch.

Bhuniar—eight and half miles N.N.-E.

Baramula—ten miles east; Srinagar is thirty miles east of it.

Tieffenthaler speaks of the following route as generally followed by merchants:

From Najibgarh, Alamnagar: Dharampur: Shahranpur: Tajpur: Gular: Nanh (at this place the road enters into the mountains), Bilaspur: Jala: Zoali: Haripur: Makrota: Bissuli: Badroa: Kishtiwar: Srinagar.[24]

There were two trade-routes to Central Asia. The first passed through Gilgit and Kashgar and the other was from Skardu to Yarkand, which passed the Baltero glacier and which, owing to change in the ice, is now no longer passable. These two routes also led to China, with which country an appreciable percentage of trade was in existence then. "But since the irruption of Shah Jehan into Little Tibet, the king of the latter place, not only interdicted the passage of the caravans, but forbade any person from Kashmir to enter his dominions." Trade connections between Kashmir and Central Asia and China were so intimate that they could not wholly be cut off. The merchants, instead, took a circuitous road. From Kashmir they went to Patna in Bihar and Orissa, thence to Nepal, *via* Kuti (Nilam) Pass to Shigatze, and thence to Lhassa. From Lhassa there was a trade-route to Shinning Fu on the Chinese Frontier, north-east to Khosai and the Charing Nor.

Exports and imports.

The principal markets for the Kashmir products were the whole of India, Central Asia and China. There were also trade connections with Jammu, Dardistan and other adjoining provinces.

[24] Jadunath Sarkar, *Op. cit.*

The following table shows the principal commodities imported from and exported to, the following countries:

Country	Exports	Imports
India	Fruits and vegetables, saffron, horses, shawls and woollen stuffs, silk-fibre, wood-work, metal-work and stone-work.	Precious metals for coinage and ornaments.
Central Asia and Tibet	Spices, wood-work, metal-work, stone-work and *pattu*.	Woollen cloth, musk, crystal, jade, Tus, gold and salt.
China	Shawls, *kuth*, a small quantity of cotton cloth.	Tea, musk, China-wood, Kahruba, and Mumiran-i-Chini.

From this table it appears that Kashmir during the Moghul period was self-sufficient so far as the necessaries of life are concerned and that the only imported commodities were either articles of luxury or medical plants and drugs. On the other hand, it exported a prodigious amount of costly shawls and other costly materials, horses, fruits, saffron and silk. Evidently we must have got a favourable balance of trade and consequently Kashmir must have been commercially in a prosperous condition.

Commercial organisation.

No particular commercial organisation existed in Kashmir. In so far as the trade with Central Asia and China was concerned, the Muhammadans took a leading part. The Chinese and Central Asian caravans also came to Kashmir.

As regards the trade with India it was partially carried on through the agency of the Moghul govern-

ment and partly through Indian traders. Most of the shawls exported, for instance, were taken by the government and sent to Agra where some of them used to be presented to the emperor and some sold to courtiers and other high class people. Indian traders came to Kashmir and purchased various commodities which they sold in the chief cities of India. The Moghul Emperors in their many visits, were followed by hordes of these traders. Kashmiris do not seem to have got much commercial enterprise and very few of them went even outside the valley, to sell their products. Consequently much profit was earned by outside traders.

No *melas* were held. Selling and buying was done at the shops or houses of tradesmen and manufacturers.

Internal trade.

Srinagar was the chief centre of internal trade. It was a flourishing city and the home of artisans of various kinds. Trade was very brisk and the streets were lined with long rows of shops of various commodities.

The town of Anantnag was also a trade centre and supplied many commodities such as *pattu*, cooking wares, etc., to the whole of the valley.

The chief means of transport in the valley was the river. Porters also carried great loads over difficult country. Horses were used for carrying *shali* and other foodstuffs. Hand carts, bullock carts and wheeled traffic were unknown. Roads were, therefore, narrow and two horses at most could walk abreast.

Famines and Epidemics.

Besides political disturbances, Kashmir has severely suffered from natural calamities. Times and oft this beautiful valley has been ravaged by the blows of famines, fires, floods, earthquakes and epidemics. During the Moghul period these natural calamities were

not a few. In Akbar's time a severe famine occurred and despite the mighty efforts of the Moghuls, took a heavy toll of life. Kashmir has, as someone said, never suffered from lack of water, but always from an excess of it. In 1662 A.D. a flood devastated the crops, thus adding the miseries of a famine to the already miserable people. When Akbar heard of it, he deputed many officials to make arrangements for the carriage of grain to Kashmir. After the famine subsided a little, he ordered a wall to be constructed round Hari Parbat, so that it might give employment to people. The emperor sent Rs. 1,10,00,000 from Agra and liberal wages were paid to the labourers.[25] This alleviated to some extent the sufferings of the impoverished people.

During Jehangir's reign (in 1615) an epidemic of plague occurred in the valley. The king describes it very touchingly in his Memoirs: " On this day a report of the chronicler of events arrived, stating that plague had taken firm hold of the country (Kashmir) and that many had died. The symptoms were that on the first day there was headache and fever and much bleeding from the nose. On the second day the patient died. In the house where one person died, all the inmates were carried off. Whoever went near the sick person or a dead body was affected in the same way. In one instance the dead body was thrown on the grass and it chanced that a cow came and ate some of the grass. It died. Things had come to such a pass that from fear of death fathers would not approach their children and children would not go near their fathers. A strange thing was that in the ward in which the disease began, a fire broke out and nearly 3,000 houses were burnt.

25 Lawrence, in his *Valley*, says that single woman received 4 annas and married woman 6 annas per day.

I trust that the Almighty will have mercy on His sinful slaves, and that they will be altogether freed from this calamity."

In 1610 A.D. a great conflagration occurred in Srinagar, in which 12,000 houses were burnt to ashes. Jehangir was then in Kashmir and though his presence encouraged frantic efforts to bring the fire under control, yet all was of no avail.

There occurred several earthquakes in 1552 and 1668.

During the reign of Shahjahan (in 1648) a severe famine visited the valley. Again the excess of rains was the cause. Grain was imported from Lahore, Gujarat and Sialkot which rendered some help to the people.

The economic consequences of these natural calamities were far-reaching. Though the Moghul rule in Kashmir was to some extent a peaceful one, yet these natural calamities played havoc amidst the people. The various industries of Kashmir received a check. Particularly did the labourers suffer from these calamities. At the time when they had to fight with famines and epidemics, they were paid lower wages. It is not, therefore, strange that the majority of deaths took place among the low class people.

The Standard of Life.

Kashmir, as we have observed, was materially in a fairly prosperous condition. The standard of life, therefore, was also fairly high. From the description given by Abul Fazl, Jehangir, and Bernier, we gather that the people of Kashmir lived in no inferior standard to the people of the rest of India. On the other hand, we are inclined to believe that the standard of life in Kashmir was higher.

The houses were all of wood, though there was also a large quantity of free stone in the country. Wood was preferred chiefly on account of its cheapness and also on account of earthquakes. Majority of houses were four-storey high. Adjoining to almost all the houses were private gardens which were kept in a well-cultivated condition. This clearly shows that the people were well-off. Wooden houses must not be taken to denote *hujras*. A sample of this kind of wooden house is still extant at Bulbul Lankar (which was built 600 years ago). Articles which we nowadays consider as necessaries (like metallic wares, carpets and chairs) were not in free use in the sixteenth and seventeenth centuries. This, however, does not prove that the people were not happier or lived in an inferior standard. It only shows the general backwardness of times in the various fields of science.

The standard of life among the middle class, like Pandits, was not inferior to the present time. They were employed in the government service, ran schools, practised medicine, cultivated land, and did business. Of course, they were not left in peace to enjoy the fruits of their labour, being sometimes persecuted by bigoted governors: chiefly in the time of Aurangzeb.

The condition of the lower classes was also fairly good. We have seen that numerous industries flourished in Kashmir during the Moghul period giving employment to thousands of men, women and children. Though wages paid do not seem to have been as high as they ought to have been, we may safely assume that the lower class was more prosperous during the Moghul period than (excepting the present) in the succeeding periods.

"The people take their pleasure in skiffs upon the lakes," wrote Abul Fazl. This sentence is highly

enlightening on the general standard of life. People think of enjoyment only in times of peace and prosperity and we may, therefore, safely conclude that both of these blessings were present in Kashmir during the Moghul period.

MARKETS AND PRICES OF ARTICLES IN BENGAL (1740—1765)

BY

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Generally every important city[1] or village had a market within its boundary.[2] The markets in the cities[3] contained shops of almost every article of necessity as well as luxury, e.g., sweetmeats, sugar, bhurā (unrefined sugar), milk, ghee, betel leaves, betel nuts, mace, cloves, nutmeg, sandal, saffron, firewood, etc.[4] Rāmaprāsada's description of the market in the city of Burdwan deserves notice in this connection. He writes, " Beyond these the poet (Sundara) saw the King's market with thousands of foreign merchants sitting there. There were hundreds of traders and

1 This is clear from the description of cities in Vijayarāma's Tīrthamaṅgala, (1769 A.D.) where the author has carefully noted the market places, visited by him and his master Kṛṣṇa Candra Ghoṣāla.

2 Bāzārs existed even in places which were not trade centres. " Nattour has a large bazar but is a place of no trade."—Rennel's Journals, p. 83.

3 By cities here, I mean capital cities : *vide* Rennel's Description of Cities and ' Capitals of Provinces.'

4 Bhāratacandra's Vidyāsundara, Chap. ' Mālinīr besātir hisāb.' From this chapter we can also get an idea of the articles of daily consumption in middle class family.

F, 9

shop-keepers and countless gems, pearls, rubies. There were various kinds of fine and beautiful cloths such as vanāt (felt-cloth), makhmal (velvet) Pattu, Bhusnai,[5] Batadar, Daccaia,[6] Maldai,[7] and various other kinds, much liked by the Āmirs (the rich). There were many bilātī (foreign) articles of fancy price or of fashionable designs,[8] which were, however, heaped together for want of customers. Everything was cheap and easily available. . . Bāghāi Kotwāl, with pride equal to that of the Lord of Death and with red eyes, was present there on an elephant's back."[9]

At that time Calcutta had about ten or eleven such Bazars, viz., Soba Bazar, Dobapara Bazar, Hautcula Bazar, Baug Bazar, Charles Bazar, Sam Bazar, New Bazar, Begum Bazar, Gasthola Bazar, John Nagore, Gunge or Mondy Bazar, situated in the district of Govindpur.[10] The several articles on which a duty was collected at the Gunge or Mondy Bazar were: rice, paddy, gram, and all other kinds of grain; as also tobacco, ghee, cloth, oil, gunnies, capas, seeds, betel-nut exported,—" in short on every article that comes within the denomination of common food, or the common necessaries of life." The duty collected by the farmer of the Gunge on rice, at 1 maund per rupee, was the nearest 8 per cent, and on every other article 3 pies sicca per rupee, or

5 Perhaps refers to cloths manufactured at Bhuṣṇa Pergana.

6 Cloths manufactured in Dacca District.

7 Cloths manufactured in Māldah District.

8 According as we read 'beś' Kimmater 'or' beś Kismater; the latter is more probable since in the next sentence the writer speaks of the cheapness of all goods.

9 Rāmaprasāda's Vidyāsundara, Chap. Bāzārvarṇana, p. 6, Vasumati edition

10 Consultations, October 9, 1752 A.D.

1 rupee 9 annas per cent.[11] The several articles[12] brought for sale in the Suttanutty market and Soba Bazar had an established charge or rate, from one gonda of cowries to 6 *pun* per diem, on each shop, bundle, bag, or piece according to the different value or species of goods. Gram, mustard seed, wheat imported from Hugli and other places paid 6 gondas of cowries on each sicca rupee, sugar on each bag 2 annas, ghee on each dupper 6 annas, honey on each dupper 2 annas.[13] The duties levied in other markets, as well the articles on which they were levied, greatly resembled those in the abovementioned two Bazars. The great Bazar, under the district of Dee(?) Calcutta, was farmed out in three partitions under the heads of—(*i*) Jow Bazary, or duty on

11 Holwell's Indian Tracts, pp. 210—216. The income from the farming of the Gunge were as follows :

Year	Amount	Year	Amount
1738	6501	1746	13201
1739	6505	1747	17002
1740	9025	1748	18203
1741	6655	1749	14004
1742	6655	1750	10100
1743	7600	1751	12010
1744	8500	1752	22760
1745	11200		

12 For the different articles, *vide* p. 6.

13 Holwell's Indian Tracts, pp. 210—216. Suttanutty market and Sovabazar yielded since they were first formed as follows :

Year	Amount	Year	Amount
1738	3504	1746	4172
1739	3589	1747	4370
1740	3397	1748	4422
1741	4012	1749	4599
1742	3532	1750	4849
1743	3758	1751	5000
1744	3991	1752	7510
1745	4332	...	...

greens, fish, roots, pāns (betel), etc.,—common necessaries of life, (*ii*) Iron, ghee, sugar, betel-nut and merchandise, (*iii*) the duty of Koyally or Jouldary. The first of these was farmed in November but the second and third in April.[14] In the second partition of the great Bazar, duties on iron, ghee, sugar, etc., were collected.[15] Iron paid a duty of Rs. 1-15-3 per maund, when both exported and imported; Balasore stone dishes paid Rs. 16 per 100 dishes. Balasore stone cups Rs. 8 per 100 cups, betel-nut paid a duty of Rs. 1-15-3 per cent both in imports and exports. Pepper, copper, tootenague, lead, dammer, cotch, chanks (śankha-conch-shells), paid a duty of 2 per cent on imports and exports; sugar paid 4 annas per each ox-load of two bags; honey, wheat and wax, 2 per cent on imports and exports. Rice and grain imported paid 2 seers, 8 chattak per each ox-load; rice and grain exported paid

14 Holwell's Indian Tracts, pp. 210—216. The Jow Bazary had produced since it was first formed as follows:

Year	Amount	Year	Amount
1738	1650	1746	2185
1739	2029	1747	2185
1740	1980	1748	2285
1741	1765	1749	2400
1742	1804	1750	2400
1743	1994	1751	2600
1744	2007	1752	3500
1745	2307	...	...

15 This produced, since it was first farmed, as follows:

Year	Amount	Year	Amount
1738	1101	1746	1347
1739	1155	1747	1345
1740	1156	1748	1345
1741	1156	1749	1367
1742	1250	1750	1662
1743	1150	1751	2100
1744	1200	1752	2100
1745	1320	...	...

1 seer 4 chattak per rupee; gram imported paid 6 puns 1 cowrie per rupee; turmerick, ginger, sandalwood, red lead, long pepper, saltpetre, lac, gunnies, etc., paid a duty of 2 per cent; tobacco imported paid 2 annas 3 pies per ox-load; tobacco exported 2 per cent and 2 puns of cowries for each ox. Brass plates paid a duty of 8 annas per maund on both imports and exports. The third partition of the great Bazar, farmed in the month of April was the Jouldary or Weighman's duty of 1 seer 4 chattak per rupee, levied on all rice, paddy, gram, wheat, etc., imported in the great Bazar.[16]

Holwell says that, for a few years since 1738, the method of farming the company's Bazars had been greatly corrupted in the hands of Govindaram Mitra; the farms were not sold at public auction or outcry in presence of the Zemindar but the prices were settled in the house of Govindaram Mitra, who under fictitious names, took most of the good ones for himself and disposed of the others that were more precarious, to his friends and relatives; he reported these prices to the Zemindar for his confirmation and several " pāṭṭās " were ordered to be drawn out accordingly.[17]

16 This farm produced to the Company as follows :

Year	Amount	Year	Amount
1738	726	1746	1164
1739	717	1747	1164
1740	718	1748	1180
1741	731	1749	1219
1742	1108	1750	1727
1743	700	1751	1900
1744	1036	1752	1900
1745	1139	...	...

Holwell's Indian Tracts, pp. 210—216.

17 *Ibid.*, pp. 180—182. Govindaram Mitra was accused of frauds, relative to the farms and bazars for the years 1749, 1750, 1751. He was most violently accused by Mr. Holwell, but Mr. Cruttenden and Mr. Manningham were of opinion that Govindaram Mitra was not guilty of frauds, as the farms had been made at

Rāmaprasāda has only described the jewellery and cloth departments of the market in Burdwan, but a city market also contained various other shops dealing in different articles, e.g., grain-golās (barns), grocers' shops, shops of craftsmen like Śānkhārīs (shell-workers), Kānsārīs, etc.,[18] as we find from several contemporary descriptions by Vijayarāma (1769 A.D.). The farmer of the Suttanutty market in Calcutta (which was held twice a week, on Thursdays and Sundays) collected duties from retailers of cowries, cotton thread, apothecaries' shops, oil shops, hardware shops, tyar shops, milk shops, jaggree shops, weavers' shops, braziers' shops, potters' shops, shoe-makers' shops, and from shops dealing in sweetmeats, betels, cucumbers, trees, roasted rice, tobacco, firewood, straw mats, bamboos, betel-nut, greens, sugar-canes, plantains, tamarind, salt, cloths, rice, venison, paddy.[19] Strict order was maintained in these markets by the Zemindars' officers. One of the important functions of the Kotwāl (the Police Inspector) was to look after the markets and to prevent all sorts of disorders in such places.[20] One of these officers, who remain-

public cutchery, due intimation being given beforehand, and as there was no order that did not entitle the said Mitra to an equal right to purchase as well as any other. The majority of the Board was of opinion that Govindaram was not accountable for any gains or other advantages that he had gathered on the farms for these three years.—Public Proceedings, dated 11th October, 1752.

18 " The boats soon reached the market-place at Bhagwāngolā, and all shouted out 'Hari, Hari!' They were highly pleased to see the market, and surveyed the whole city on foot. The market, beautiful to look at, extended 4 kos (eight miles) and was full of numerous śānkhārīs (shell-workers), kānsārīs and weavers. The streets were filled with grocers' shops, and they all spoke highly of the market. There were also innumerable grain golās (rice and paddy barns) there. They left the place after halting there for two days."—Vijayarāma's Tīrthamaṅgala, pp. 39-40. Almost similar descriptions have been given of markets in other cities also, e.g., Rājmahal (*Ibid.*, p. 43); Kāliganj (*Ibid.*, p. 40); Futwāh (*Ibid.*, p. 62); Kāssimbazar (*Ibid.*, p. 190); Cutwāh (p. 193).

19 Holwell's Indian Tracts, pp. 210—216.

20 *Vide* the Chap. on " Espionage and the City Police."

ed in charge of the markets, examined the weights and measures, as well as the quality of the provisions sold, and regulated the market prices. Anybody violating these regulations was subjected to a severe punishment [21]

For retail purchases, cowries were more in prevalence than coins.[22] Thus we see that the markets were definitely organised and controlled by the Zemindars in their respective localities, to the convenience of the people in general.

Prices of Articles.

In 1729 the prices of the necessaries of life in Murshidabad were as follows: (*a*) Bansephool, fine rice first sort, 1 md. 10 seers per rupee; second sort 1 md. 23 seers per rupee, and third sort, 1 md. 35 seers; (*b*) coarse Desna rice, 4 mds. 15 seers per rupee; (*c*) coarse Poorbie rice, 4 mds. 25 seers per rupee; (*d*) coarse Munsarah 5 mds. 25 seers per rupee; (*e*) coarse Kurkashallee rice 7 mds. 20 seers per rupee; (*f*) wheat (first sort) was sold 3 mds. per rupee, (second sort) 3 mds. 30 seers per rupee; (*g*) barley was sold 8 mds. per rupee; (*h*) Bhenot (a kind of grain for feeding horses) 4 mds. 35 seers per rupee; (*i*) oil (first sort) 21 seers per rupee, (second

21 (*a*) " Being sensible that iron and leaden weights by frequent use will lose considerably, we therefore now send you a set of brass standard weights with proper scales and triangles by which you are immediately to regulate the weights at your Presidency, and you are carefully to preserve the said standard weights for the same purpose at all times hereafter.—Court's letter, February 11, 1756 A.D.

(*b*) " Neither could anybody sell anything in less than the proper weight nor could anybody cheat others by increasing the price. The Gāzi punished him, who violated the regulations; the customers as well as the shopkeepers were all under his orders. ' Virāśī ojan ' (82 weight) was the standard weight in the market; nowhere was the weight more or less than this standard. It was fixed by the Gāzi that oil should sell at 1 seer per 12 puns, ghee 1 seer per four annas "—Samaser Gāzir Puthi,—Typical Selections, etc., Part II, p. 1853.

22 " These being insufficient, I took some cowries from others,"—Bhāratacandra's Vidyāsundara, Chap. ' Mālinīr besātir hisāb.'

sort) 24 seers per rupee; (*j*) ghee (first sort) $10\frac{1}{2}$ seers per rupee, (second sort) $11\frac{1}{4}$ seers per rupee.[23]

In 1738 rice was sold from 2 mds. 20 seers to 3 mds. per rupee and capas 1 md. per 2 to $2\frac{1}{2}$ rupees.[24] But by the year 1751,[25] the prices had risen nearly 30 per cent more. In that year rice was sold 1 md. 32 seers per 1 rupee 4 annas, grain 1 md. per rupee, wheat 1 md. 32 seers per 1 rupee 4 annas, flour 1 md. 3 seers per 3 rupees, oil 1 md. per 5 rupees. Just the next year, the prices had gone further up—rice being sold 1 md. 16 seers for 2 rupees 8 annas, grain 1 md. 12 seers per 3 rupees 5 annas 6 pies, wheat 1 md. 6 seers per 4 rupees 11 annas, flour 1 md. per 8 rupees, oil 1 md. per 11 rupees.[26] In Consultations, November 9, 1751, we find that the Company's Government in Calcutta did not realise that year the annual duties taxed on rice and oil, amounting to nearly Rs. 500 in consideration of the great distress and hardship under which the people were labouring owing to the dearness of these two articles.[27] Further the price of rice was lowered and fixed by the Government in the following way: For good November bund[28] rice 35 seers per rupee, ordinary rice 1 md. 10 seers

23 Fort William Revenue Consultations, dated November 29, 1776, quoted in Appendix 15 to the Sixth Report, 1782.

24 Consultations, December 11, 1752.

25 *Ibid.*

26 Letter of Govindaram Mitra to the President and Governor, dated 20th November, 1752. *Vide* Long's Selections from the Published Records of the Government, Record No. 99.

27 Long, No. 69, p. 27. The Zemindar was asked to give public notice there of. Mr. Holwell who was the Zemindar at that time was however opposed to the remission of duty on the ground that the money would not go to the poor but to the dealers.

28 The term 'bund' occurs frequently in the records. It locally meant 'season.' The November Bund commenced from 1st October to the end of February; the March Bund from 1st March to 30th June; the July (or Barsat) Bund from 1st July to 30th September—(Murshidābād District Gazetteer, p. 130).

per rupee.[29] The Zemindar was directed "to give public notice in all the market places that no person should exact higher prices than hereafter specified under a severe penalty." In 1754 fine rice was sold in Calcutta 32½ seers per rupee, and coarse rice 40 seers.[30] The prices of cotton[31] and raw silk[32] had also increased considerably.

This increase of prices was due principally to three factors: (*i*) the ravages and plunderings of the Mahrattas, (*ii*) the imposition of heavy duties on gross sales of the articles of prime necessity,[33] and (*iii*) the great rains of April 1751[34] which "having overflowed the country enough to drown whatever was planted in the low grounds," caused a 'great famine' the like of which had not been known "for these sixty years past for it rose to so dreadful a height that many of your inhabitants have perished within the town with hunger, a truth well-known to every one."[35]

The Mahratta irruptions were a calamity of an exceptional kind, and they appeared as a terrible scourge, seriously affecting the economic condition of the inhabitants of Bengal. In 1751 a letter from Cossimbazar stated: "The dearness of raw silk and silk piecegoods for some years past, they find, is owing to the Mahrattas' constantly entering Bengal, plundering and burning the people's houses and destroying the chief Aurungs from whence the workmen have fled to distant parts, and not to any malpractice in the gentlemen there."[36]

29 Despatch to Court, January 2, 1752 A.D.

30 Consultations, June 10, 1754 A.D.

31 Consultations, December 11, 1752.

32 Consultations, December 9, 1751.

33 Letter of Govindaram Mitra, dated Calcutta, 20th November, 1752.

34 Despatch to Court, February 23, 1752 A.D.; Consultations 24th November, 1755.

35 Letter of Govindaram Mitra, etc.

36 Consultations, December 9, 1751; Despatch to Court, January 2, 1752.

Mr. Henry Kelsall, Resident at Balrumgurry, informed the Board in the same year that the disturbances occasioned by the return of the Mahrattas had prevented him from being able to purchase any ready-money goods as the weavers or greatest part of them had been obliged to abscond.[37] In 1753 Mr. Mcguire wrote from the same place: "Weavers at Balasore complain of the great scarcity of rice and provisions of all kinds occasioned by the devastations of the Mahrattas, who, 600 in number after plundering Balasore had gone to the Nellegreen hill (Nilgiri hills); several weavers have brought their looms into the factory, and the few who remain declare they shall be obliged to quit the place."[38] In contemporary literature also we find a graphic description of the state of destitution to which the people were reduced as a result of the devastations carried on by the Mahratta invaders. It says: "The Bargis plundered and murdered all whom they could lay hold of with the result that no provision could be had; rice, pulses, 'dal' of all sorts, oil, ghee, flour, sugar, salt, began to be sold at one rupee a seer. The misery of the people was indescribable. Numbers died of starvation. 'Gāñjā' and tobacco could not be purchased; so also vegetables of all kinds. All of them from the lowest to the highest, including the Nawab himself had to subsist on boiled roots of plantain trees."[39] This account is confirmed by the *Ryāz-us-Sālātin* which uses almost similar words: "to avert death by starvation human beings ate plantain roots."[40]

[37] Despatch to Court, February 4, 1751 A.D.

[38] Consultations, February, 1, 1753 A.D.

[39] Mahārāṣtrāpurāṇa. lines 234—242.

[40] *Ryāz-us-Sālātin*, p. 340. We might very well compare with this the extraordinarily high prices of articles in Burdwan, as mentioned by Bhāratacandra in his description of the Mālinī's marketing for Sundara, to whom she rendered a detailed account of the purchases made by her. She had purchased sweetmeats at the rate of 1 seer per 1 kāhan (i.e., 1 rupee), ½ a seer of sugar at 8 panas (annas); sandalwood, cloves and nutmegs were very rare in the market; she had

The imposition of heavy duties on the necessaries of life became a source of great hardship to the people. The consumption of the necessaries of life must at all times be nearly equal, let the price be what it will. A poor man may put off buying a new coat until the price of cloth falls, but pressed by hunger every one must buy victuals if he has money to purchase it. In order to meet the demands of heavy duties the merchants enhanced the prices more and more and the people were compelled to meet these high prices.

Sometimes the competition between two rival trading companies enhanced the prices. To fill up their investments quickly, the people of the European factories offered high prices for cloths and cotton goods to the businessmen and weavers. The native inhabitants of Bengal had in the long run to suffer and pay these high prices for their clothing. For example, we may note that the competition between the French and the English Companies increased the prices of cotton goods and cloths at Dacca in 1752 A.D.[41]

purchased ghee with great difficulty after searching through the whole market, and a 'pun' (20 gondas) of betel-leaves had been purchased by her at 2 panas (2 annas); eight bundles of firewood had been purchased at 8 panas (annas); this rate was regarded as rather extraordinary, and it was apprehended that the rate would increase day by day. We shall see that the poet's apprehension was not unfounded (Bhāratacandra, 'Mālinīr Vesātir hisāb'). Bharatacandra completed his work in 1752 and it may be reasonably supposed that the high prices he described were due to the Mahratta invasions in Burdwan, which city had been most severely affected by these invasions.

41 "That they now labour there and have done for these two years past under the inconvenience of a French Factory continually emulating the Hon'ble Company's trade, and have advanced the price of all cloths, both coarse and fine, and obliged them to be less severe with their dallols in pricing their cloth. They have frequently told them that they were quite indifferent at their ferreting or rejecting their cloth, being sure of disposing of it advantageously to the French, that they have been as strict in the examining their cloth as possible, and have returned great quantities, even considerably more than they have taken."—Consultations, December 11, 1752 A.D.

Since 1754 onwards we find a gradual rising up of prices of almost every article of necessity. In the Proceedings, January 15, 1759 A.D., it is noticed that the Company bought for the Gentoo (Hindu) sepoys 49 mds. and 8 seers of rice at 86 Arcot rupees.[42]

About the same time cloves were selling at Rs. 16 per seer, mace at Rs. 12 per seer, nutmegs at Rs. 6 per seer, pepper at Rs. 25 per maund, cinnamon at Rs. 5 per seer, almonds at Rs. 25 per maund, raisins at Rs. 60 per maund.[43] In 1760 the prices of some articles were as follows: Fine rice, Rs. 1-15-0 for a maund, coarse, Rs. 1-10-0 for a maund, stick lac, Rs. 5-10-0 for a maund,[44] dammer, Rs. 2-9-0 for a maund, lump lac, Rs. 7-2-0 for a maund, Lothwood, at Rs. 1-9-0 a maund, iron, Rs. 7-5-0 for a maund, cotch, at Rs. 8-4-0 a maund.[45]

In view of the scarcity of grain of every kind in Calcutta, and of the inhabitants being reduced to great distress, the sea and land custom Masters proposed in 1760 A.D., that the "Company's duties be taken off on grain imported, till the present scarcity is over." It was consequently ordered that "all duties whatever on the importation of grain be struck off till further orders."[46] In the same year the Grand Jury presented to the Justices of the Sessions "as a grievance to the public, the collection of duties on all provisions and necessaries of life brought into Calcutta by land, whereby the price of every article of subsistence was enhanced to a most exorbitant degree, and the hardship was most severe on the lowest class of people." Taking this into

42 Proceedings, January 15, 1759 A.D.

43 Proceedings, November 1, 1759. This record mentions another kind of raisins being sold at Rs. 50 per seer.

44 We may compare with this the present price of stick lac which sometimes goes above Rs. 100 per maund.

45 Proceedings, March 20, 1760 A.D.

46 Proceedings, June 26, 1760 A.D.

consideration, the Board took off the land custom duties and removed the chowkeys employed in levying them: the collector's tithe was also taken off.[47] In July 1761 the Board proposed to send a sum of money to the markets in the interior of the country for the purchase of a quantity of grain to be sold at an easy rate. Babu Huzzurimull, a rich merchant of Calcutta, offered to advance a quarter of the amount, the Board resolved to send the sum and to take the management of the purchase. Accordingly Rs. 50,000 (the Company's 37,500 and Huzzurimull's own quarter, 12,500) was advanced to Huzzurimull for that purpose. It was further resolved to write to the Chief of Council at Luckipur directing him to furnish all the grain he could procure until the beginning of October ; Cossimbazar and Dacca factories were also asked for further supplies.[48] In 1762 standard prices of articles of various kinds in Calcutta were fixed according to the following rates:

Cokenill				No.-per. a. rupee.	
(Cochineal),	20-0-0	per seer.	Cowries, 56	5-0	per cent.
Coffee, Batavia	8-0-0	per maund	Dry dates	1-0	Do.
Coffee, Mocha	17-0-0	Do.	Dates net		
			Dammer burning	4-0	Do.
Coir rope (a)	12-0-0	Do.	(a)	3-12	per maund.
Copper, Persia	40-0-0	Do.	Raw	5-0	Do.
Plate	34-0-0	Do.	Boyl		
Jappon	50-0-0	Do.	Elephant teeth		
			1st sort	70-0	Do.
Coir	8-0-0	Do.	Elephant teeth		
			2nd sort	40-0	Do.
Cotton	24-0-0	Do.	Elephant teeth		
Chank (a)			3rd sort	25-0	Do.
1st sort	45-0-0	per. cent.			
2nd sort	15-0-0	Do.	Frankincense	3-0	Do.
3rd sort	12-0-0	Do.	Gold thread	3-8	per oz.
4th sort	9-0-0	Do.	Gum Arabic	2-0	per maund.

47 Proceedings, September 4, 1760 A.D.

48 Proceedings, July 20, 1761 A.D. Mircasim also complains of the dearness of grains in his letter to Vansittart, received 16th June, 1761 : Vansittart's Narrative, Vol. I, p. 204.

(a) Coir rope = rope made of cocoanut fibres; Chank = śankha, conch-shell; Dammer = resin used for pitch; Gogull = gum-resin; Hurtall = Yellow Arsenic, used for yellow paint.

„ Small	4-0-0	per	maund	Gaull	12-0	per	maund
				Gogull (a)	4-0	,,	Do.
				Hurtall (a)			
				1st sort	20-0	,,	Do.
				2nd sort	13-0	,,	Do.
Hinge (a)	100-0-0	,,	Do.	Steel	15-0-0	,,	Do.
Ainggrah	10-0-0	,,	Do.	Japan wood	4-0-0	,,	Do.
Iron, Europe	9-8-0	,,	Do.	Salt, Persia	150-0-0	,,	Do.
Kissmisses	15-0-0	,,	Do.	Madras	100-0-0	,,	Do.
Lead	9-8-0	,,	Do.	Sindia	200-0-0	,,	Do.
Mace	8-0-0	,,	seer	Ingeley	150-0-0	,,	Do.
Nutmeg	4-0-0	,,	Do.	Silver thread	3-0-0	,,	oz.
Pepper	40-0-0	,,	maund	Tobacco	10-0-0	,,	maund
Pistacha nut	2-0-0	,,	seer	Tin	24-0-0	,,	Do.
Pistacha flower	1-0-0	,,	Do.	Tootinague (a)	15-0-0	,,	Do.
Quicksilver	2-12-0	,,	Do.	Tea in catty			
Rose water	25-0-0	,,	chest	1st sort	8-0-0	,,	catty.
Red lead	6-8-0	,,	maund	2nd sort	4-0-0	,,	Do.
Raisin	12-0-0	,,	Do.	3rd sort	1-8-0	,,	Do.
Ratten	0-12-0	,,	bundle	Toze	25-0-0	,,	maund
Sandal wood	12-0-0	,,	maund	Vermilion	4-0-0	,,	seer
Senna leaves	15-0-0	,,	Do.	Vordegreaze	2-8-0	,,	maund
Sugarcandy	16-0-0	,,	Do.	White lead	8-0-0	,,	Do.
				Wax Pegu	32-0-0	,,	Do.[49]

Thus the prices of articles went on increasing day by day to the great distress of the people, till they had their cup of misery filled to the brim in the great famine of 1770. Just after the Famine the prices became extraordinarily high and in 1776 some articles of necessaries were sold as follows: Fine Bansephool' rice, first sort, 16 seers per rupee; second sort, 18 seers per rupee, and third sort 21 seers; coarse Desna rice 32 seers per rupee, coarse Poorbie rice, 37 seers per rupee, coarse Munsurah rice, 1 md. per rupee, coarse Kurkashallee, 1 md. 10 seers per rupee; wheat, first sort, 32 seers per rupee, second sort 35 seers per rupee; barley, 1 md. 13 seers per rupee; Bhenot (a kind of grain for feeding horses), 20 to 22 seers per rupee; oil, first sort, 6¼ seers per rupee, second sort, 6¾ seers per rupee; ghee, first sort, 3 seers per rupee, second sort, 4 seers per rupee.[50]

49 Midnapur Records, No. 5, pp. 3-4.

50 Fort William Revenue Consultations, November 29, 1776, quoted in Appendix 15 to the Sixth Report, 1782.

EXCHANGE VALUE IN THE MODERN WORLD

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1. "Value is a social conception; society puts its appraisal upon commodities. If value is a measure of sacrifice and if value is a social estimate, value must be the measure of social sacrifice or cost. Social sacrifice means the sacrifice which members of society as a whole are willing to make. The exertion of one man is estimated in relation to the exertion of another, and the sacrifice of each is compared with the need of society as a whole. The standard is social, not individual."[1]

Here is the theory of value in a society where competition has full play on production. It rests mainly on a labour theory of value. All capital is ultimately made by human labour and expenses of production are mainly resolvable into wages. When all members of a society freely compete with one another in satisfying various social needs, their individual exertions are compared with the needs of the society as a whole, and they receive wages in just proportion to their exertions. There being perfect freedom of competition, varying wages (and consequently, values) serve to measure quantities of effort in different occupations. Value, then, is governed by cost, in the sense of labour or effort.

2. Unfortunately, however, the premises of this theory are hardly to be found in this world. Competition in a modern society is not free and the above theory of value so far is not valid. Whether from natural causes or as the result of existing social conditions, the movement of labour from grade to grade is not free. For most men it is almost impossible to move from the group in which they find themselves into one more favoured. Amid the great variety of occupations and of wages, certain broad groups may be distinguished. Cairnes called these non-compet-

[1] Seligman, *Principles*, p. 193.

ing groups; non-competing in the sense that those born or placed in a group usually remain there and do not compete with those in other groups. Taussig roughly enumerates five such groups: (1) day-labourers, (2) labourers whose tasks are comparatively simple and monotonous, but who yet must have some intelligence in watching and applying machinery, (3) skilled workmen who constitute the aristocracy of the manual labouring class, (4) the clerical lower middle class, and (5) well-to-do people, belonging to highly-paid professions. These groups, Taussig hastens to observe, "are not distinguished by sharp demarcation, for they shade one into another by continuous gradations; but they are distinguished sufficiently to bring into relief some important questions as to the relations between social classes and the fundamental causes acting on distribution and on value."[2] This distinction should be borne in mind, particularly for a later stage of our argument, when we shall discuss qualifications to the theory of non-competing groups.

3. Now, when there are non-competing groups, competition is free within groups but not so as between them. If a certain commodity is the product of a non-competing group, then competition of labour that goes in making this commodity is confined to members of this particular group, not to society as a whole. The cost of production of a commodity produced by a non-competing group, therefore, means the cost or sacrifice made by the members of a part, not the whole, of society. Now social marginal cost, as we have already seen, means cost or sacrifice which members of society as a whole are willing to make. In the absence of competition, this is obviously indeterminate. Under non-competing groups, therefore, value is determined by social marginal utility, not social marginal cost: by conditions of demand, not those of supply.

This is the theory of value under non-competing groups; and

[2] *Principles*, Vol. II, p. 141.

the existence of these groups, as we know, is a formidable social fact in the modern world. The labour theory of value, true of a free society, does not apply to modern conditions: values are determined ultimately by utility or demand, not by cost.

4. Taussig makes a novel attempt to escape this conclusion. "It still remains true," he argues, "that varying expenses of production are the causes of most changes in value . . . changes in demand cause labour to shift from one occupation to another within each grade, but rarely cause a noticeable change in the demand for all the labourers in the grade. Hence variations in expenses of production and variations in cost of production ordinarily run together . . . changes in value are commonly due to changes in the quantities of the different kinds of labour called for, that is, to changes in cost; though the general scale of values is the result of demand and utility, not of labour applied."[3]

5. Now this argument seeks to emphasise that only a change in the labour supply of a particular non-competing group, that is, a change in its relative position, determines a change in value. To this the immediate reply is that, social marginal cost is really indeterminate in the hands of the members of a particular group—it can be ascertained only in the hands of the members of all groups, freely competing with one another. So long, therefore, as competition is not free and effective among all the groups, changes in the relative positions of these groups do not determine changes in value which are settled in such a case always by changes in the conditions of demand not of supply. Taussig's argument thus cannot be accepted. Under non-competing groups, values, to repeat, are always determined by utility or demand, not by labour cost, in the sense of labour or effort.

6. This conclusion, again, is sought to be qualified thus. Earnings may be so divergent as to cause passage from one group into another. This tendency is particularly strong in a progressive society where artificial barriers tend to be broken down. Strati-

[3] *Principles*, Vol. II, pp. 159—61.

fication, after all, is not rigid, and the barriers are not altogether impassable. To this the reply may be as follows. It must be recognised that we are here dealing with broad facts. The waters of humanity have not yet prevailed over the barriers. These barriers are still real enough to justify our conclusion. Generally speaking, the outstanding social fact of our times is inequality and lack of economic freedom. Very few thinking persons will question this fact of inequality or doubt that artificial barriers only help to preserve it. The sceptically-minded may just ponder over the growing spirit of Socialism, to get their lingering doubts removed.

7. We now proceed to review the theory of international values in the light of the present analysis. The accepted theory of international values is that they are determined, within the limits imposed by comparative (labour) costs, by the intensity of reciprocal demand. If there are two countries A and B, with two commodities wheat and cloth and if with the same quantity of labour A produces ten units of cloth and fifteen units of wheat and B ten units of cloth and twenty units of wheat; then A will exchange ten units of cloth for any number of units of wheat, lying between fifteen and twenty once trade between the two countries has begun. The limit 15—20 is imposed by comparative (labour) costs of production. The exact number of units of wheat to exchange for ten units of cloth will be determined within this limit by the intensity of reciprocal demand, in the two countries.

8. There would be no objection to this theory in a world in which labour was mobile and competitive within countries but as between them, was immobile and non-competitive. But, as we have already observed, even within countries the movement of labour from grade to grade is not free. If, therefore, there are non-competing groups of labour in countries trading with one another, international values are determined, following the theory of non-competing groups, by demand, and not by labour cost, in these countries. This makes a short work of the still persistent

belief that the theory of international trade rests mainly on a labour theory of value. Simultaneously, it knocks the bottom out of the theory of international values as accepted at present.

9. This is challenged at once. It is contended that non-competing groups are of the same order in all countries, and therefore, they are more important within their own borders than in the exchanges with one another.[4] The argument is that, had the social stratification been different in different countries, then only would international values be determined by comparative demand, and not by comparative labour cost.

10. Now this contention is absolutely untenable. In the illustration adopted in section 7, we considered two commodities, wheat and cloth. Suppose these are produced by non-competing groups of labour in either country. Then in the country A wheat exchanges for cloth at values which, as we have repeatedly observed, have little to do with labour cost, but which are determined ultimately by utility or demand. So if the exchange rate be 15:10, it is clear that this rate has been brought about by the play of demand and not of cost, in terms of labour. We cannot hold that "the same quantity of labour" produced the two commodities: in fact, they were produced by two distinct groups of labour which had no basis of comparison at all.

The situation in B again, will, of course, be similar. Here, too, wheat exchanges for cloth at values which are determined by demand, and not by cost, in the sense of labour or effort. Hence, when cloth of A exchanges for wheat of B, it is clear that the international exchange rate is derived from a comparison of the two internal exchange rates which have been determined, not by labour cost, but by demand. Concretely expressed, if ten units of cloth exchange for seventeen units of wheat in either country as a result of international trade, it is to be recognised that the resultant ratio has been settled within the limit 15—20, which is

4 Taussig, *Principles*, Vol. II, p. 161.

a limit imposed not by comparative costs, but by comparative demand, as analysed above. Now this is obviously true whether the social stratification of non-competing groups in A be the same as, or different from, its counter-part in B. In any case, the commodities exchange internationally at values which are determined by comparative or reciprocal demand, and not by comparative costs, to any extent whatever.

11. We thus reach the position that the theory of international trade, resting on a labour theory of value, is incomplete. We establish *pari passu* that the accepted theory of international values also is fallacious. Once there are non-competing groups of labour, all values of their products, national and international, are determined by demand, and not by supply. The criticism that this conclusion is invalidated, in so far as products of the same non-competing group in different countries enter into international exchange, is itself invalid, because their values do not measure social marginal cost, but social marginal utility or demand. Value, to repeat, is a social conception.

12. The proposition of this thesis, namely, that in view of the stable social stratification in modern world, exchange values are determined by conditions of demand, and not by conditions of supply, thus remains unaffected. Socially considered, the situation is indeed pregnant with grave dangers, in the intensification of class prejudices and class struggles. To avert such dangers, and to introduce a better order in production as well as in distribution, this situation needs to be changed, and the sooner it is changed, the better for society as a whole. As Taussig observes, "The removal of all artificial barriers to the choice of occupation is the most important goal of society. Given this, the innate faculties of all will be brought to bear and all will bring to the social dividend whatever it is in them to contribute; while at the same time the most perfect freedom will be secured and thereby the most even distribution of happiness."[5]

5 *Principles*, Vol. II, p. 149.

A NOTE ON THE BOARD OF ECONOMIC INQUIRY, PUNJAB

BY

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At the present moment there seems to be considerable interest displayed in the question as to whether it is desirable to set up in India, Economic Advisory Councils on lines similar to those which have been established in other countries. The recent visit to India of Sir Arthur Salter, the Economic Adviser to the League of Nations, Geneva, has probably stimulated this interest and frequent requests are made for information as to the origin and constitution of the Board of Economic Inquiry, Punjab. Such seekers after light are usually referred to the article which Prof. Myles wrote for the Indian Journal of Economics in January 1925 (Vol. V, Part 3, pp. 246—49), but as some of the information contained in that article is now a little out-of-date it may not, perhaps, be inadvisable, to review the reasons for the establishment of the Board, the objects it has in view and the work which it has done in the last decade. It is possible that the original article may not be available to all readers of the present note and for that reason perhaps a certain amount of repetition of the information contained in Prof. Myles' article may be forgiven.

The Board came into being at the instigation of the Government of the Province in the year 1919, when it was thought desirable to inquire into the economic conditions of the agriculturists. It was felt that some permanent body should be set up to undertake economic research in the Punjab, and Government agreed to the recommendation of the Committee appointed to inquire into the matter, that " it was highly desirable to establish a Standing Board of Rural Economic Inquiry for the Punjab . . . this Standing Board to have at its disposal, an annual allotment of funds for

expenditure on the payment of investigators, the encouragement of investigations and the publication of results."

The constitution of the Board was formed so as to secure the co-operation of officials and non-officials and was thoroughly representative of the people who were likely to be interested in the economic development of the Province. The original constitution is still in force, though some modifications appear to be necessary in view of the experience gained.

Although it was originally intended that the Board should deal with rural affairs only, an urban section was added and the two Financial Commissioners of the Province were appointed ex-officio Chairmen of the two sections. There are 23 other members, viz., the Directors of Agriculture, Industries and Public Health, the Registrar of Co-operative Societies, the Inspector of Factories, the Professor of Agriculture in the Agricultural College at Lyallpur, and the Professor of Economics in the Punjab University: all the above are ex-officio; the remaining 16 members are nominated as follows:—two officials who are interested in Economics and Statistics, by the Chairmen, one official from his department by the Registrar of Co-operative Societies, four by the Syndicate of the Punjab University, two by the Director of Public Instruction, and seven by Government, of whom one has to be a Journalist. The term of the nominated members is three years, and the Board has power to co-opt not more than four additional members to serve for a period of not more than three years.

The functions of the Board are as follows:—

1. to lay down lines of economic investigation;
2. to co-ordinate the results of economic inquiries;
3. to encourage and direct economic study and research; and
4. to publish economic material.

All the expenses of the Board have so far been met by annual grants from the Provincial Government and it is generally agreed that considering the large amount of work undertaken by the Board in the last ten years the amount of money spent has been

remarkably low. This, however, has been possible, only because of the very large amount of voluntary work done by various members of the Board, keen economists and other public-spirited men of the Province, and people who were sufficiently interested in the economic development of the Punjab to give of their leisure time in the supervision of the inquiries conducted by the Board.

In the earlier years there were all the difficulties of pioneer work owing to the fact that nothing of a similar character had been done in India; there was practically no previous experience on which to improve and for a few years the efforts of the Board were mainly directed to the necessary preparatory work prior to undertaking serious scientific investigation.

In 1922 Prof. Myles undertook the secretarial duties of the Rural Section. Under his guidance much material was collected and published, and till he was compelled by illness to leave India in 1928, a regular series of reports on various matters of economic interest to the Province were issued. His devotion to the work was remarkable and few bodies have been served so well as was the Board by him during these six years. He displayed an unusual thoroughness and grasp, and all his work was characterised by an enthusiasm which never flagged.

In this connection reference should be made to the part played by the present Chairman, Mr. H. Calvert, C.I.E., I.C.S., who, as every student of Economics in the Province knows, displays very keen interest in all efforts of this character and whose enthusiasm for research into rural economic problems is well-known over a much larger field than the Punjab. His assistance and guidance have been invaluable and fortunately he is still available for the direction of the work of the Board.

A full list of the publications of the Board will be found in the advertisement pages of this Journal and from this list it will be seen that the investigations have been of a somewhat varied character. A questionnaire for economic surveys of villages in different parts of the Province has been extremely useful, not

merely in the inquiries conducted by the Board but in similar surveys attempted by Punjab students and by investigators in other Provinces. It is proposed to conduct a survey in some typical village in each of the 29 districts into which the Punjab is divided and so far 18 surveys have either been completed or are in various stages of progress. In addition to the full surveys of particular villages inquiries have also been conducted into—

1. The milk supplies of Lahore and Lyallpur; the former having been revised during the last year.
2. The size and distribution of holdings of cultivators in two districts.
3. Mortgages of agricultural land.
4. Rates of food consumption of zemindars in two districts.

The Board has also published two studies on Punjab food prices, as well as a series of yearly accounts of farms cultivated under different conditions in various parts of the province. These annual accounts of cultivators under different tenures and methods of cultivation (*barani*, well-and canal-irrigation) running over a period of years, are likely to prove a veritable mine of information for students of economic conditions of the Punjab, if, as it is hoped, they can be continued over a long period.

Another series of reports has been published containing the results of inquiries into various aspects of marketing problems. The first one was in collaboration with the Indian Central Cotton Committee and published by the Committee in 1929 as a general report of investigations into the finance and marketing of cultivators' cotton. At the present moment similar inquiries into the finance and marketing of wheat in the Punjab are in progress and the results of inquiries into the weights and measures used, and the general marketing practices in the *mandis* of the Province, should be published shortly.

The method of conducting inquiries is as follows. A suggestion may be made by a Member, or from outside, or it may be a

reference from Government, and the question is discussed by the Board. If necessary a sub-committee is appointed to report on the proposal and if this is favourable to an inquiry an investigator is selected who has special facilities or qualifications for an investigation into that particular problem or district. Advertisements used to be inserted in newspapers for investigators but the applications were mostly from people who were far below the required standard. Now an effort is made to find a man by private inquiries; usually however, the greater difficulty is to find a man to supervise, rather than one to conduct the inquiry. The supervisor may, or may not be, a member of the Board, but is someone who has experience of the subject of the inquiry.

The minimum qualification for an investigator is an Arts degree, with Economics as one of the subjects or a B.Sc. in Agriculture, but preference is given to an M.A. in Economics. Investigators are paid from Rs. 150 to Rs. 235 a month, but it has been the practice of the Board to give a proportion of this amount only on the completion of a satisfactory report.

It is rather difficult to get investigators of the right type. In India at present the lure of Government service seems to be almost irresistible and the Board has been unable to offer any assurance of permanency. The better type of students do not consider service under the Board at all tempting unless it be as a stop-gap until something more attractive is found. The experiment of getting men on deputation from Government Departments has not been too successful.

In the earlier years the practice was to appoint a new man for every inquiry but in recent years an attempt has been made to build up a small cadre of investigators who might be employed continuously by the Board on different investigations. It is felt that while there are disadvantages arising out of this practice, there are on the other hand, very solid advantages since the investigators are able to profit from their previous experience and little time is lost by them in undertaking a new investigation,

whereas under the old system it was found that the first two or three months usually produced very little work of any value, as the investigator was frequently entirely inexperienced in this class of work.

It will be seen that most of the publications have dealt with rural matters but urban affairs have not been entirely neglected. Urban inquiries have been conducted at different times into the factory conditions in the Punjab, as well as in one or two other subjects, but for various reasons these have not been published. The milk inquiries mentioned above have dealt with conditions in two towns and one of the earliest publications of the Board, now unfortunately out of print, was the result of inquiries into the family budgets of low-paid clerks in Lahore.

The Board is frequently consulted by governing bodies on particular matters of economic interest, and investigations have been conducted in order to answer particular points and references for the provincial government, e.g., sales of land between agricultural tribes, use of faulty weights and measures, rural indebtedness, etc. Memoranda have been supplied to various commissions appointed by Government such as the Royal Commission on Agriculture (*vide* Vol. VIII, pp. 693—707), the Punjab Banking Inquiry Committee (Vol. I, pp. 217—234) and at the request of the Royal Commission on Labour in India an inquiry was conducted into the standard of living of workers in the Punjab and this will be published shortly.

As has been mentioned earlier there has been a considerable amount of voluntary work of a solid character done by various members of the Board, and the writer of this note would again stress the personal factor, as any success which the Board has achieved is, in his opinion, almost all if not entirely, due to the very keen interest of a comparatively few men in this kind of work. The Board stands as a good example of what can be done by serious and enthusiastic workers in a voluntary, co-operative effort on economic research.

NOTES

THE CENTRAL BUDGET

Partly owing to world causes of trade depression and falling prices, and partly owing to internal disturbances, the Government of India have found themselves in an unenviable position with huge deficits both for the year that is about to come to an end and for the coming year. Without going into details, the magnitude of the problem will be realised if we point out the estimated deficit for 1930-31 is 13·56 crores, and that on the existing basis of taxation, the deficit for the year 1931-32 is expected to be 17·24 crores of rupees. The country is on the eve of great constitutional changes, which will involve a thorough overhauling of the financial arrangements of both the Central and Provincial Governments. At such a juncture, the need for meeting such unusual gaps is indeed unfortunate; on the one hand, it reflects adversely on the existing Government; on the other, it makes it impossible to devise permanent schemes of balancing the budget as both the economic and political atmosphere are full of uncertainty. In view of this the budget of Sir George Schuster suffers from all the handicaps of a transition period, and may therefore be said to contain many temporary makeshifts which will inevitably require a thorough revision in the near future.

Deficit and Debt.

The deficit of the year 1930-31 will involve a corresponding addition to the unproductive debt of the country. There will be

some additional revenue before the year expires on account of certain additional customs duties which will come into operation from 1st March, 1931. This is expected to reduce the deficit from 13·56 crores to 12·68 crores, which will be the figure to be added to the permanent unproductive debt.

Retrenchment and Taxation.

So far as the deficit for the next year is concerned, it is obviously necessary to remove the possibility of having to live on borrowed money once again. The alternatives are reduction of expenditure and addition to taxation. Compared with the magnitude of the problem, the condition of the people and the strength of opinion regarding the high level of expenditure in certain Government departments, the proposed retrenchment is very meagre. Very few will join in the praise of the Military offered by the Finance Member on account of a retrenchment of Rs. 175 lakhs made by them; at the same time one is not convinced that all possible economies in civil expenditure have been effected when we are presented with a retrenchment of Rs. 98 lakhs only in this branch, in spite of the fact that promises for further exploration for reduction in this connection have been made. The total reduction amounts to Rs. 273 lakhs which reduces the deficit to 14·51 crores of rupees. The Finance Member has suggested additions to taxation estimated to cover this deficit. The additional taxation is under two heads, Customs and Taxes on Income; the former is expected to yield 9·82 crores and the latter 5 crores, thus giving a total of 14·82 crores, which will leave a small surplus of 31 lakhs at the end of the year. We shall now review the proposals for fresh taxation in detail.

Customs Duties.

Additional duties under customs are of two kinds: (1) substantive increases, and (2) surcharges; this means that in the opinion of the Finance Member, the latter may be temporary and

subject to early revision. Among the substantive increases, the following may be noted:

Beer	... ...	increase of 66 per cent
Wines and spirits	...	,, 30 to 40 per cent
Silver	... ...	increase from 4 as. to 6 as. per ounce
Beetle nuts	...	increase from 15 per cent *ad valorem* to 30 per cent *ad valorem*
Spices	... ...	
Exposed cinema films	...	
Sugar	... ...	increase from Rs. 5 per cwt. to Rs. 6-4 per cwt.

The increased duty on sugar is in a line with the proposals of the Tariff Board for protection of sugar; this duty will therefore be taken to the protective category as soon as the Tariff Board Report is considered by the Legislature and the necessary legislation passed. The increase in the duty on silver will raise controversy. The great fall in the price of silver has raised international problems in the solution of which India will have to play an important part. At such a time any restriction on the Indian demand may depress the price further and may make the solution of the silver problem more difficult.

The surcharges on certain items in the customs tariffs may be briefly summarised as under :—

(1) A surcharge of 2½ per cent is levied on articles now paying 10 per cent.

(2) A surcharge of 5 per cent is levied on the general duty of 15 per cent.

(3) A surcharge of 10 per cent is levied on luxury articles which now pay 30 per cent.

(4) A surcharge of 9 pies per gallon is to be levied both on the customs and the excise duty on kerosene; the existing customs duty on kerosene is 2as. 3p. and excise duty 1a. 6p.

(5) A surcharge of 2as. per gallon is to be levied on motor spirit which pays 6as. at present.

The Finance Member took care to point out that the surcharge on the general duty of 15 per cent will apply to cotton piecegoods, from which particular item alone an additional revenue of 90 lakhs will be realised. In view of the differential treatment given to cotton piecegoods in the last year's budget this is indeed a welcome change. The duty on kerosene will fall on the poorer class of people. In view of the fact that the existing duties on kerosene were increased only last year and are on a fairly high level, it is difficult to justify the proposed surcharge on kerosene.

Taxes on Income.

Substantial increases have been proposed in the rates of income-tax on all classes of people including those coming in the lowest grade. The percentage increase on the lower grades is higher than on the upper grades of income. For example, the lowest grade of Rs. 2,000 to Rs. 4,999 will now be required to pay 9 pies in the rupee in place of 5 pies, an increase of 80 per cent in the rate. Additions in the rate on the other grades of income will be seen from the table below which also indicates the percentage increase in each grade.

Income Rs.	Pies in the rupee 1930-31	Pies in the rupee 1931-32	Percentage increase
2,000— 4,999	5	9	80
5,000— 9,999	6	11	83
10,000—14,999	9	14	55·5
15,000—19,999	10	15	50
20,000—24,999	13	19	46
25,000—29,999	16	22	37·5
30,000—39,999	19	24	26
40,000—99,999	19	25	31·6
1,00,000 and above	19	26	37

The changes in the supertax are as under:—

Hitherto the first Rs. 50,000 of the income were exempted from the supertax; this figure is now reduced to Rs. 30,000 and the income between 30,000 and 50,000 will be required to pay a supertax of 9 pies in the rupee. This does not apply to Hindu undivided families and companies which will be allowed the deduction of Rs. 75,000 and Rs. 50,000 respectively as at present. The flat rate for companies will also be one anna as at present. The supertax rate above Rs. 50,000 will be increased by 2 pies throughout; the yield from the increased rates in income-tax is expected to be 454 lakhs, and that from supertax 46 lakhs, giving a total of five crores.

The incidence of taxes on income on the different classes of people does not conform to the principle of ability, and a careful enquiry is already overdue to adjust the burden of the tax properly. As shown in the table above, the percentage increase in the rates of tax on the lower grades of income is much greater than those on the higher. In view of substantial increases both in the custom duties and the income-tax, the combined incidence on the middle classes is likely to be more severe than now. The rates on them should be lower, and exemptions and deductions allowed in other income-tax systems must be studied in their application to Indian conditions and suitable adjustments made at an early date. Besides, it is high time that higher agricultural incomes be brought under the Income-tax.

It may be noted in this connection that the existing income-tax is not levied on income from foreign investments. So long as foreign investments held by Indians were insignificant, this did not matter. In recent years, however, there is a tendency for people to invest abroad, and the problem of export of capital from India is assuming importance. In the conditions in which we are in this country, this is indeed an evil and must be stopped. The Finance Member has proposed legislation for the taxation of income from foreign investments on lines similar to those prevail-

ing in the United Kingdom. The picture would have been complete if the corresponding proposal to tax the income of foreign investors in India had also been made.

Other New Sources of Revenue.

In any future readjustments of the system of taxation certain new sources of revenue may have to be considered; in this connection the suggestions of the Finance Member deserve notice. The problem of having a tobacco monopoly in order to raise taxation on the consumption of tobacco is being seriously considered by the Government of India in consultation with the Provincial Governments. The excise duty on matches is also likely to yield good revenue; but, for its success it will require some understanding between British India and the Indian States. This will be possible in the proposed Federal constitution. Death duties have also been mentioned. It may be of interest to point out here that the Government of Bombay have proposed the imposition of Succession duties in their budget proposals this year.

Currency Policy.

The Finance Member has given a brief review of the currency policy of the Government of India, in which he attempts to justify the large contraction of currency that has taken place in recent times, and has assumed that the question of the rupee ratio is sealed for ever. In order to prove the thesis that the contraction of currency made necessary by the falling world prices has not been excessive, the Finance Member refers to certain estimates of the volume of circulation and index numbers of wholesale prices in April 1926, and compares the same with corresponding figures for December 1930. More than anyone else, the Finance Member himself is aware of the fact that the statistical machinery in this country is highly imperfect, that the estimates of currency circulation are based on guess work, particularly so far as the coined

rupee circulation is concerned, that the compilation of prices is crude, and that the Calcutta index number of wholesale prices is not representative of conditions throughout the country. So far as the effect of contraction on the economic life of the country is concerned, it must be pointed out that each successive instalment of contraction falls with greater severity than the preceding; besides, the manner in which contraction is carried out and the circumstances at the time have also to be considered. For example, during the ten months from 1st April, 1930, to 7th February, 1931, a contraction of 36½ crores was effected. In paragraph 113 of his speech the Finance Member points out that the steps taken by way of contraction of currency to meet the falling world prices would have been equally necessary in order to maintain the rupee at 1s. 4d. if that had been established in 1920. It must be pointed out, however, that though the process would have been similar, the contraction required would have been less in volume and intensity: in other words, the 1s. 4d. ratio would have provided an effective mitigating factor against the adverse effects of falling world prices. Regarding the ratio question, the remarks of the Finance Member are not likely to carry conviction. He says, for example, that " if once the country, having adopted stability and accepted a statutory obligation, repudiates that obligation in order to meet the difficulties of the moment, what confidence would anyone have in the future that such a step will not be taken again? " In the first place, it is common knowledge that the people of the country have not willingly accepted the new ratio, and that it was put on the statute book by a narrow majority in the Assembly, against the wishes and protests of those Indians who were best qualified to understand the problem from the Indian point of view. Besides, a similar question can be asked, namely, that if you once raise the value of your currency unit, what guarantee is there that it will not be raised again? The desire to restore the rupee at its pre-war level is not so much to meet the difficulties of the moment, as to restore the very confidence in the stability of currency

arrangements that has been rudely shaken by the forced legislation of 1926.

C. N. Vakil.

GOLD DISTRIBUTION AND PRICES

In commenting, in our October number, last year, on the thesis propounded by Sir Henry Strakosch that the gold-grabbing policy of France and the United States of America was mainly responsible for the abnormal fall in prices throughout the world, we suggested that it was a sweeping generalization which needed better proof and more evidence to commend itself to an exacting student of the problem. Sir Henry's challenge has been taken up by the nations concerned, and though the statistics compiled under the auspices of the League of Nations and the conclusions drawn therefrom appear to lend colour to the alarmist views regarding the future of gold, business and scientific men are agreed in thinking that the influence of gold accumulation by France and the United States of America has been exaggerated a good deal. The question at issue is as to the weight to be attached to the effect which the monetary supply of gold and credit facilities made available to trade and industry by banks, have had upon the low level of prices which have prevailed in the world during the past year. Leading bankers have clearly stated that it is not due to lack of credit and money that prices have declined and that the source of the trouble must be sought elsewhere. In fact, in the case of several banks there has been less demand for accommodation and their business has consequently been dull, and profits have been moderate. Mr. Goodenough of Barclay's Bank, for instance, has emphatically stated that "monetary influences have played a much smaller part in bringing about the trade depression than is sometimes thought." Mr. J. Beaumont Pease, Chairman of Lloyd's

Bank delivered himself on this question at the last annual meeting of the Bank, as follows: "The constant reiteration of the cry 'More gold, more gold' effects no faith cure in my unbelieving mind. Without belittling the general truth of the quantitative theory of money, I see very little reason for supposing that the present depressed state of trade is due to the operation of this principle. Even though gold may not be increasing in the same ratio as the increase of production, nevertheless the ordinary purchasing medium as expressed in the amount of bank deposits has increased in a far greater proportion."

It is obvious that it is not the quantities of gold that banks may have in their vaults, but it is the credit which they are able and willing to create for their customers that is of importance in influencing the level of prices. The implication of the main argument of Sir Henry Strakosch was that the sterilization of gold by the United States of America and France in large quantities and their dog-in-the-manger policy of not allowing the accumulated gold to perform its monetary function for the benefit of the trade and industries of the world, had brought about an abnormal fall in the price level and that this depression was avoidable. Mr. Pease has a categorical answer to this kind of reasoning. He says: "It is not because of any shortage of gold that America and France think themselves unjustified in lending to those countries who would like to borrow. If America and France are disinclined, with their present stock of gold, to lend to would-be borrowers, does any one suppose that they would be more disposed to do so if an addition of 100 millions of gold were suddenly made to their existing large stocks?" Then he goes on to ask a pertinent question: "Is any trader in this country unable to obtain credit if he is a reliable man and is ready to place an order? You have seen from our figures that our advances have greatly decreased, and the reduction in our profits is largely due to the fact that our proportion of advances has fallen to 48·5 per cent. Obviously

that was not according to our wishes, or due to the fact that we could not or would not lend but because there was no demand." Similar views have been expressed by American bankers also, Mr. Warburg, Chairman of the Manhattan Company, thus avows his " entire disbelief in the thesis that a shortage of gold should be considered as the sole or principal disturber of general price stability." The London *Economist* (February 14, 1931) cannot range itself on the side of " those who think that monetary policy alone is responsible for the present situation," but considers the suggestion in certain quarters that the gold problem and monetary policy have nothing to do with the matter, as a " very inadequate and short-sighted view." This is decidedly a sober and a reasonable attitude on the question.

That a more satisfactory distribution of the world's supply of gold may be achieved by the cooperation of the great National Reserve Banks, will be universally admitted, and that the practical importance of such cooperation has been appreciated by these institutions is shown by the fruitful discussions which have recently taken place between the representatives of the Bank of England and the Bank of France. As to the alleged gold-grabbing by France and America, certain difficulties which come in the way of the outflow of gold from these countries to those nations like Germany which are hungering for the yellow metal, have got to be taken into account. The people of France, which has drawn large quantities of gold from London, have not been able, as was their wont, to invest their savings abroad for lack of suitable outlets and reliable customers. The frozen reserves of that country are, therefore, the result of this lack of confidence in the borrowers on the part of creditors and the want of suitable objects on which money could be laid out. By lowering its rate of discount, the Bank of France has recently decided to discourage the inflow of gold and to encourage the investment of French capital abroad. This policy

is calculated to bring considerable relief to the London money market and to the Bank of England which have regarded the exports of gold from Britain with much anxiety. The latest annual report on the working of the Bank of France maintains that the economic world crisis is the cause and not the effect of the inflow of gold into France on a large scale. In the *Revue d'Economic Politique* (Nov.-Dec., 1930) Prof. Charles Gide has attempted a theoretical justification of the position of the Bank of France in respect of the gold situation. As reported by the *Frankfurter Zeitung* (February 7th, 1931), he argues that "when there is a considerable decline of prices as has recently happened, there is an international liquidation of debts, and credits are only partially renewed, and in the case of creditor nations, this results in a large inflow of gold. That was the position in the United States of America in 1920 and the same thing is being witnessed in France at present." The war having destroyed the equilibrium of international movements of capital, France has not yet been able to find suitable opportunities for the investment of its national capital While conceding that there is some truth in this contention, German critics are not prepared to endorse it as a statement of the whole truth. A writer in the *Frankfurter Zeitung* points out that whereas in the previous year, the report of the Bank of France breathed the ambition of France to make Paris an international money market, obviously in competition with London, through short-term lendings, the report for the past year is found to sing in a different tune, and for the first time the Bank lays special stress on the necessity to stimulate long-term lending abroad. Critics are not inclined to attach much weight to the difficulties pleaded in France as obstructing the outflow of gold from that country. If an understanding can be reached between England and France on the question of the mutual control of the distribution of gold, it is argued, political unrest and suspicions ought not to be allowed to stand in the way of the export of French capital abroad. France does not like Germany to raise the question of the repara-

tions payments and at the same time expects her creditors to consent to lend capital to that country.

How the European atmosphere is surcharged with suspicion even with regard to this business problem, which has a vital bearing on the economic revival of the world, is illustrated by the observations of a German paper published in America, viz., *St. Joseph's Blatt* on the question under discussion. That paper looks on the understanding reached between the central banks of the United States, England, and France as a deliberate attempt to isolate Germany. The negotiations are interpreted as a sort of a conspiracy in which France will assist England with its loans of gold and the latter country will give France a free hand in its continental politics. It is being declared in France that that nation is ready to help Germany with capital but the latter must not talk of the revision of the reparations payments. What influence politics has on the solution of economic difficulties cannot be better illustrated than by the present international situation on the European continent. Germany pleads that world's economic equilibrium cannot be re-established until the Young Plan is satisfactorily revised. France will not listen to any proposals of that nature and is not prepared to lend her capital abroad until the talk about revision ceases. If there is no outflow of French capital, there is maldistribution of gold in the world and consequently the possibility of the continuance of the present depression. A vicious circle indeed!

V. G. K.

CASTE AND ECONOMIC STATUS

Caste represents the chief standard or scale according to which we may measure the trends and ramifications in the social economy of the country. Caste is hardly the static thing as is the common notion. In fact, any striking change in economic status is always

accompanied by an economic differentiation and the rise of new castes and sub-castes.

A definite relation exists between a caste and its labour value and financial status. India's ancient social gradation has been governed by the supremacy of the Brahmin or Thakur. Although these high castes own good landed property and house property they disdain in large parts of the United Provinces to drive the plough or adopt other occupations subsidiary to agriculture like the Kurmis, Muraos, Jolahas, and Koris. Thus it is these latter castes which obtain credit more easily and throughout the province, the gentlemen castes are going down and property is passing from their hands into those of the moneylenders and the lower castes. As economic forces are bound to have ultimate sway, the social stratification will gradually but inevitably change. The low-born castes which are more industrious, which freely adopt various remunerative occupations apart from agriculture and which besides are more prolific, being thoroughbreds of the soil, will obtain a stronger footing in the country.

This tendency is already visible in this province though it is far more marked in Bengal and Southern India. The autochthonous peoples of India, who have grown up in the sunbaked field and the flaming forge, now form three-tenths of the population of India but a century hence they will form nine-tenths of its population. It is a problem of tremendous significance for the civilization of India whose bare outline we see emerging in this province in the preference of the man of the high caste for starvation in idleness to work in affluence, in his gradual displacement from the soil, in the keen desire to lease holdings to tenants who are Kamin and in an equally pronounced aversion from tenants who are *Sharif*. It is true that the rent paid by the Brahmin is now often below the market or competition level. But as social and religious considerations will have decreasing influence with the shrewder class of landlords, the Brahmins and the Thakurs will have to face the free competition with the low castes, which are

now rackrented and will inevitably go to the wall unless they change their habits, conventions and temperament.

Similarly, so far as agricultural indebtedness is concerned the castes are more leniently treated by the *Mahajan* than the lower ones. But social custom is responsible for a far greater proportion of debt on unproductive expenditure amongst the former and their cumulative burden of inherited debts smothers both thrift and initiative. On the other hand, as money is dear in the rural economy those who require credit most and utilize it best get it least. Such a paradox cannot persist for long. The present social situation in the village exhibits clearly the distinctive features of a transition. The future will undoubtedly see a gradual adjustment of land distribution and social gradation to the new economic forces which have now brought even the tiny conservative Indian hamlet into the maelstrom of world agriculture and commerce.

Each person, caste or profession, is now being borne along like wisps of straw by the current of economic trends. The outcome is grave economic and social unsettlement with its associated family breakdowns, caste disruptions, rural desertion and the reduction of peasant proprietors and tenants into a floating proletariat population.

Both State aid in the form of protective land legislation and provision of cheap and easy credit as also educational propaganda are indispensable for smoothing the present transition. Various bodies and agencies, official and un-official, must address themselves to the work of rural betterment. The time-honoured and ubiquitous institution of India where the voice of the people has expressed itself through and down the ages, namely, the Panchayat, must now be revived not as a wooden government agency but as a vigorously active organ of rural public opinion.

Apart from such important charges of the Panchayat such as sanitation, village public works; education and arbitration, there is no matter which is of greater concern for the welfare of the peasantry than the inculcation of a sound caste opinion relating

to the use and abuse of credit. The hereditary cultivating higher castes are losing ground in the province, while the Kurmis, the Chamars, the Ahirs and the Jats among others have made considerable acquisitions of property and wealth. But the largest gainers are the non-agricultural classes. If the industrious and prosperous lower castes imitate those above them in the caste hierarchy not merely in the acceptance of Brahminical rites and customs, but also in the matter of social expenditure, mostly unproductive, the benefits of economic uplift will be dissipated in the desire for improvement of caste status We here come across another paradox in the present social situation. Castes which rise higher in the economic scale appear to be sacrificing better living and comfort to social position and status Indeed, if this tendency continues, the Indian village will find itself groping in a vicious circle of wealth, social prestige and extravagance which will dissipate the hard-won acquisitions of decades. Only a sound practical wisdom of the sons of the soil can avert such a situation.

R. K. M.

REVIEWS OF BOOKS

PRESENT-DAY BANKING IN INDIA, by B. Ramchandra Rau, M.A. Published by Calcutta University.

Mr. Rau is reputed to be a keen student of Banking. A glance at the book and its size proves that by his untiring pains and patient perseverance he has fully earned this title. The volume covers in all about 700 pages, of which 650 pages are devoted to the text matter and the rest are occupied by appendices, index, etc. The components of the Indian Banking system and problems relating thereto are described and discussed.

There are twenty-one chapters. On account of their importance and special nature of their operations, The Imperial Bank of India, Exchange Banks, Joint Stock Banks, Co-operative Banks, Post Office Savings Banks and Indigenous Bankers are each given a separate chapter. The question of Bank of Issue, commonly known as "Reserve Bank" is minutely dealt with. The problem of Banking Reform has been discussed at great length. On account of its vastness and complicated character, it has been subdivided into a number of chapters. Those headed, The Need of Banking Reform, Banking Management, Bank Organization and Banking Legislation, Land Mortgage and Industrial Banks, which play such an important part in other countries and whose non-existence here is retarding our economic growth, are treated at length. In order to give an aspect of completeness to his subject the author has included in his book such special subjects as the Indian Money Market, Recent Monetary Reform and Organization of Capital and Investment. The chapter on Organized Banking in the days of John Company is an interesting study. Its preparation must have, no doubt, cost the author a good deal in time and mental energy, as those who have experience of wading through old misty records, can easily testify. But the collection of this material is valuable as representing results of early experimentations in modern banking in India, proper understanding of which is necessary both for adequate comprehension of the present organization and the future reformation of Indian Banking. Stripped of its refineries and outer garb of variegated colours, banking in its essential form implies borrowing and lending: and upon the happy adjustment of borrowings and lendings, not only as regards quantity but also upon quality, depends its well-being. Necessity for safe and liquid investments and clear perspective is as great now as in the past—a good deal more now, because of the great dependence of present economic activities upon credit. Lessons from past history in regard to banking failures bring out in relief the supreme need of their avoidance. In view of the size and operations of present-day banks collapse of credit nowadays involves much greater ruination than it ever did in the past.

The descriptive part of the book seems to be fairly accurate. The author has supported his statements by references. But not being engaged in the actual banking business, he has failed to take note of some of the important points either because he does not know of them or does not appreciate their importance. This same fact perhaps also accounts for occasional want of clear exposition and lack of knowledge when discussing technical matters There is too much insistence on the obvious digressions and repetitions occur frequently. The subject-matter can be rearranged and better co-ordinated with advantage. The opening chapter deals with Money Market. Banking is a component of the Money Market and in the fitness of things this should come after banking chapters The style at times is heavy. On account of the above defects the reading becomes somewhat tiresome. In our opinion the author could easily reduce the size of his book by about one third, if not by one-half, which would improve its value.

Nowhere do we find any mention of the systematic sale of hundies in the market by shroffs with the object of increasing their working capital. Such hundies are held by the public as "Time Deposit" Receipts. A holder of such a hundi looks both to the original drawer and the endorsing shroff for repayment. On maturity or a little before it, he tenders the hundi and gets back his money; or, if he so chooses a new hundi in exchange. This system has to some extent worked as substitute for deposit receipts In hundi, the holder has a tangible proof of the shroff's investment and can form some judgment as to its quality which is not visible on the surface of Bank Deposit Receipts. It was perhaps better that such a practice grew up first so as to pave the way for the growth of the deposit system. Chettyars are a very important banking community. The extent of their operations and the manner in which they take loans from banks are subjects of no mean importance and should find adequate treatment in a treatise dealing with Indian banking. It would add to the value of chapter on Indigenous Bankers if the deficiency in this respect is supplied. Definition of B.C. rate on page 145, as "the rate for retiring bills, i e, paying them before maturity" is incorrect Exchange Banks fix daily a rate at which bills for which no exchange contracts are previously entered into are to be paid and this is called B.C. rate for the day Bills falling due on a particular day are paid at the rate fixed for that day, so that it does not relate to bills retired before maturity, as the author's definition would imply. It is not clear what the author means by such expressions as "reserve deposits," page 55 "The fact that other Joint-Stock Banks can pay even the Current Accounts . . ." page 54, "The unlawful Loans on Real Estates . ." page 627, which when even related to the context appear to be vague and meaningless. The author's suggestion on page 419 that "a change in the Transfer of Properties Act will enable the banks to lend more on goods stored in recognised warehouses or the borrower's godowns" betrays lack of legal knowledge, inasmuch as the security to which he refers is of the nature of hypothecation or pledge which is governed by the Contract Act and not by the Transfer of

Property Act which deals with immovable properties, like lands and buildings. When dealing with the Banking crisis of 1913—16 the author refers, on page 223, to the practice prevalent in other countries of mutual drawing of accommodation bills between various banks and deplores its non-existence in this country. Unless he alludes to the rediscounting facilities available at the Central Bank under which two banks may combine to draw and endorse a bill and discount it at the bank of issue, there is no such practice of mutual drawing of accommodation bills; and if that be the case it is a very crude way of expression. In fact, negotiation of accommodation bills is against canons of prudent Banking. A bank may offer for rediscount bills in its portfolio but the moment it is known that banks have combined to raise credit on their joint signatures it would create panic in their depositors.

On page 5 the author says, "The cheque system of issuing credit has not developed to a great extent to amend the inelasticity of the currency media in our country." Although in the last resort currency and credit perform the same function, delivery of a cheque is more akin to payment of money than grant of credit. The latter implies repayment of accommodation extended but not the former. Development of cheque habit and increase of deposits enlarge the basis of credit but do not impart elasticity to credit or currency, which connotes expansion and contraction. On page 619 there is a suggestion that the Investment Trusts will guide their clients in their investments. This is a wrong conception of the functions of Investment Trusts. Although they apply their expert knowledge to investments, one of their chief objectives is to distribute the investment risk, i.e., "Not to put all eggs in one basket," however safe the basket may be. Expert knowledge is unknown to the novice or the uninitiated; and adequate distribution of risk will not be possible for persons of small means. An investment trust may put in a small money on a proposition which promises very handsome return even though its ultimate success may be not quite certain; but it would be positively dangerous for an individual to follow this lead and put his savings on this particular venture. Loss of this money would hardly affect the fortunes of the investment trust but it may mean ruin of the individual. Hence the underlying idea of these trusts is to replace individual investment and not to induce or guide investment. Investment is much too difficult a business to be done by an amateur. The author alludes to the superiority of investment in shares to government bonds and debentures and says that the existing public belief to the contrary should be shattered (pages 619-620). A Statement of such great import without adequate explanation will not only be not understood by the average student of economics but is likely to mislead many. It should be made clear that what the author is referring to is not all shares but only ordinary shares. Preference shares which carry fixed return are in that respect on par with Government Bonds and debentures. It is only common stock, or ordinary shares, that carry the right to participate in increasing profits or equities in the concern. It should be explained that the "cult of the

common stock" is based on the variations in the purchasing power of monetary unit and the expectations of continuous increase in the earnings of healthy concerns. Short-dated bonds which mature within a few years of their issue or purchase are not a thing to be disposed at, because the risk of depreciation in value, during short intervals, is negligible. It is impossible to accept the generalised sweeping statements of the author Even to the most speculative investor, gilt-edged and debenture bonds should not be unwelcome as a part of a varied menu.

On page 617 it is said, "The sum total of our past savings stands as a positive achievement and must silence most of the jingoist talk concerning the increasingly widespread poverty amongst masses" It is difficult to follow this conclusion. Proving or disproving of this saving is not so easy as the author seems to think. Mere figures of deposits cannot throw much light Purchasing power of monetary unit, variations in prices, the distribution of savings or deposits amongst the various classes of population, etc must all be taken into account before an opinion can be formed one way or the other No sufficient material on these lines has been given, to support his theory Loose general statements of this nature do not add to the value of any work

The author has given many suggestions to improve the existing order of things Some of them are mere repetitions of what has been preached, or introduced in other countries Banking opinion is not unanimous on their acceptance but none the less they deserve careful consideration There are others of a novel character Some of these at least would not have been put in print if the author had more intimate contact with the actualities of his subject, or perhaps the ideas have not been fully developed or there is want of clarity in expression To quote a few examples: On page 520 when dealing with the restrictions to be imposed on the use of the word "bank" he suggests that its application should apply "to those financial companies which undertake to meet all obligations on 'demand' . ." We hope he does not mean that banks should not be allowed to accept "time deposits." On page 521 he says that reserve fund should be invested in trusty securities All the funds of the bank get mixed up and it is impossible to say which part of the funds is covered by trusty securities. All that can be recommended is that a certain portion of the assets should consist of gilt edged paper, this portion depending upon the amount of capital, reserves and deposits Incidentally, it may be mentioned that this suggestion of the author is contrary to his recommendation elsewhere that shares are superior to Government Bonds though we of course do not entirely agree with the latter view. On page 523 the author suggests that banks should not be allowed to invest in channels the return from which is lower than interest paid on borrowings. It will be impossible to distinguish what particular funds are being put in a particular investment and consequently it will not be possible to correlate any particular sets of interest earned and paid. If Mr. Rau means that interest earned on any investment

should not be below average rate of interest paid on borrowings, it is equally objectionable. If it happened that at a particular moment, when demand for money is very slack, a bank has large idle funds, and it would be able to earn something by utilizing them in short-term investment, it should not be precluded from adopting that method even if the return be below the average cost paid for deposits. The position of "call loans" can be studied with advantage in this connection. Lastly, if the idea be that average interest earned should not be below the average interest paid, the proposition is so self-evident that it needs no legal enactment—the success of a bank depends upon adequate margin between interest earned and paid, so that its non-existence is sure to bring it to grief.

The author's view that acceptance business should be prohibited to banks with small means is not intelligible. No grounds are given for this suggestion to so circumscribe the business. Acceptances correspond to maturing obligations to make payments. As a rule the extent of acceptances will correspond to the size of the bank. If a bank's position is not sound the market will not want its acceptances. By accepting a Bill the bank lends its name which makes its negotiation in the market easier. Restriction in this behalf would interfere with the bank's capacity to extend credit.

There are several other points which require comment. It is not possible to deal with all of them. We have, however, given sufficient indications which will enable the author, if he is so inclined, to improve the value of his otherwise splendid achievement. The book contains collection of important banking material which will be useful to students and bankers alike. Its possession would give much useful information, and save reference to a number of publications. The reports of Banking Enquiry Committees constitute imporant literature on the subject of Banking. It would have been more fortunate if the author had postponed his new edition until after the publication of these reports and enlarged the scope and usefulness of his work by the inclusion of important new material now made available. But even as it is, the book has sufficient intrinsic value of its own which remains unaffected by the appearance of these reports—if anything, it provides necessary knowledge for the understanding and appraisement of the work of these Committees.

B. T. T.

PRINCIPLES OF PUBLIC FINANCE, by J. S. Ponniah, M.A. Rochouse & Sons, Madras. Pp. 261, viii.

Mr. Ponniah's small book on Public Finance is a very useful book for a student of Public Finance. It is divided into fifteen chapters which deal with public expenditure, public revenue, public debt and financial administration. At

the end of the book there are a few appendices and a select bibliography. The book has the following good features :--

(1) The chapters are small and contain just what is necessary for those students of public finance who have no time or patience to go through a number of bulky volumes;

(2) Each chapter contains the principles of public finance as also their application to Indian State Economy, so that the history of Indian public finance can also be found in the book,

(3) There are interesting and useful questions at the end of each chapter, and

(4) The views of many authors are expressed in the course of discussion on all topics and the names of the authors quoted are given in footnotes.

The book has, however, a few drawbacks. In the first place, public expenditure is not given the importance that it deserves, the account of Indian public expenditure covers only three pages and a half, of which one full page is occupied by the budgets of expenditure of the Central and Provincial Governments The total expenditures are not shown.

In the second place, there are too many quotations in the book, with the result that the reader gets the impression that the author has very little to say himself.

Lastly, there are some mistakes in theory. For instance, the author says, while discussing the effect of a tax on a monopolist, if the tax is a fixed sum on the industry irrespective of the revenue or output, the monopolist would so fix the price that he could get the maximum net revenue. The new price may be the same as the old price before the imposition of the tax or a little more or less. ' As a matter of fact, in such a case the monopolist would still charge the same price as before the imposition of the tax and not more or less.

Again, the author says, while considering the shifting of a commodity tax under conditions of free competition, In the case of constant returns, the tax may be divided between the producer and the consumer." As a matter of fact, there can generally be no free competition if constant returns prevail in an industry, and even if competition be present the tax would be shifted entirely to the consumer.

On the whole, the book appears to be very good and should prove useful to M.A. students.

J. K. MEHTA.

ECONOMICS. AN ELEMENTARY TEXT BOOK, by W. J. Weston, M.A., B.Sc., Bar at Law. The George Publishing Co., Ltd., London. Pp. 206.

Mr. Weston's book on Economics is one of the best text-books on Elementary Economics. There are certain points of excellence which are necessary for an original work and others which are necessary for a text book. I am glad to find that Mr. Weston's book possesses many points of excellence needed for a really useful text book. To state briefly, the book is a small and convenient volume whose size will not terrify even a beginner. It is divided into twenty five small lessons as the author has called them. I believe this is meant to give to his work a real appearance of a text book. At the beginning of each lesson is given a short description of what follows. Changes of topic in each lesson are vividly shown by headings in bold types—a system that saves time when a student desires to refer to a particular problem or principle in economics. At the end of each lesson a few questions are given as exercise, and at the end of the book we find revision exercise and a few question papers in economics. The questions given by way of exercise do really call for independent thought as the author states in the preface to his book. The following are a few questions taken indiscriminately from the book, they will show how far the author's claims are true.

(1) Examine these two arguments. Which of them appears to you to be the sounder?

(a) Since there is only a little for all of us, he who has much is acting unjustly.

(b) He who has much is unjust only when his share has become greater through another's loss. He should be praised rather than reproached when his share is great because he himself has produced much and has, while producing it, added to the public wealth.

(2) It has been suggested that there should be free travelling facilities for all and that they should be paid for out of general taxation. Do you see any economic reasons against this suggestion; would it mean waste or saving? Do you see any reasons for adopting the suggestion

(3) Between 1900 and 1910 the average price level of British manufactured exports rose 5 per cent, the average price level of British food imports rose 10 per cent. Explain why this should be so. What effect has this fact upon our power to get the things we want?

The text-book covers the whole field of elementary economics with chapters on Public Revenue and Public Expenditure following those on Consumption, Production, Distribution and Exchange. On Exchange, however, very little has been said.

The style of writing is simple, and it appears the author has taken special pains to be very untechnical in his expressions so that a beginner may find it easy to

understand all he reads The style is colloquial at places, and the two words 'you see' are often thrust in the middle of a sentence to deprive an expression of its terrifying technicality

I have not been able to detect any mistakes in the theory, at places there are statements of facts which are not rigorously scientific, but I presume they were never intended to be very scientific Perhaps for a beginner, for whom the book is particularly written, statements lacking in scientific accuracy are more useful than the high sounding, complicated and rigorously scientific ones The book has no index but I do not think it is necessary for such a well planned book

The book should prove useful to all Intermediate students and many under graduate students of Indian universities

J K MEHTA

THE INDIAN PUBLIC DEBT, by D L Dubey The Indian Press, Ltd , Allahabad

This book has the advantage of dealing with a subject of absorbing topical interest during the past eighteen months Its author has taken considerable pains to collect the mass of statistical material with which it is strewn and has endeavoured to give a vivid presentation of a subject whose ramifications have often mystified politicians and others inspired with the desire for rendering public service to India

The amount of the Indian Public Debt, the forms in which it is embodied, its distribution between sterling and rupee lenders and the productive assets of the State held against this debt are lucidly indicated There is a chapter devoted to the Sterling Debt of India which traces its growth since the beginning of the century and contains an interesting analysis of the causes of the high rates of interest which India has had to pay on her sterling loans especially since the War The author denies that a fall in India's credit has been a contributory cause of her difficulty in obtaining adequate sterling resources on cheap terms But if credit be admitted to mean a belief of the lender in the borrower's capacity as well as willingness to pay past or present loans, there can be little doubt in the minds of those who have watched the current of events during the past eighteen months and the frequent mention by responsible Indian politicians of the possibility of debt repudiation that foreign lenders are not as certain as they were before the War of India's willingness to repay all past and future debts Were that so, it can confidently be asserted that at a time when interest rates in London and all the world's principal money markets are as low as they have been during the past year, India could have secured accommodation for her numerous loans during 1930 31

at a much lower rate in London than she actually did. For as to there being a dearth of capital in the world, this is hard to believe in the face of the enormous productive capacity now lying idle in the industrial countries of the world, and the great increase in savings of all classes in France, Great Britain and the United States, not to mention lesser countries like Holland, Sweden, Switzerland and Norway. These savings are only hindered from being invested in long-term loans through uncertainty of future return. India, in common with other borrowing countries, suffers in the terms on which she can raise her foreign loans in the measure in which political events contribute towards creating or maintaining this uncertainty.

The future capital needs of India are estimated at approximately Rs. 60 crores annually for the next seven years. This rather liberal estimate is made up of Rs. 30 crores on account of repayment of maturities and payments for railway purchases which the Government may decide to make in exercise of their options, Rs. 10 crores for provincial needs and Rs. 20 crores on account of fresh capital. The advisability of borrowing an annual amount of Rs. 30 crores for fresh capital expenditure for the provinces and the Central Government may well be questioned in these times of financial stringency and a price-level almost equal to pre-war figures. This is particularly the case when it is remembered that in the five years from 1925 to 1930, while railway capital at charge increased by more than Rs. 150 crores or over a quarter of the previous capital at charge, the increase in mileage, wagons, locomotives and other productive assets was much less in proportion, while the financial results of the railways during this period showed still less improvement. To a careful student of India's requirements in the matter of capital development the conviction grows that the prime need for the future is not liberal expenditure but rigorous economy coupled with the resolution that the country should get full value for every rupee spent.

But even if this principle be incorporated as a cardinal factor in governmental policy, a sum of from Rs. 40 to Rs. 50 crores will probably have to be raised by loans annually to meet all requirements during the next seven years. Nearly 10 crores of this will be required for the discharge of sterling obligations. This might best be done in view of the present weakness of exchange by raising foreign loans. And in view of the latitude enjoyed by Canada, if these cannot be raised cheaply enough in London, the question might well be considered of granting India the right to borrow in the world's cheapest money market. The bulk of the money will have to be found in India however and in this connection, the suggestions made by the author for the encouragement of the small investor leave nothing to be desired.

E. H. S.

INDIAN INDUSTRY: YESTERDAY, TODAY AND TOMORROW, by M. Cecile Matheson. Humphrey Milford. 1930.

This book is the outcome of a desire "on the part of the Christian people in India to have a reliable text book which would serve as a guide in criticising the difficulties of the present and materialising hope for the future." Miss Matheson whose services were utilised for the purpose was exceptionally well-fitted for the task she was called upon to undertake both by her wide experience of industrial conditions in England and America and by her knowledge of the working of Trade Boards in England. She writes without bias and while not sparing in her criticism of employers whenever needed, does not grudge the meed of praise due to them. Thus, in the chapter on General Conditions in the Cotton Trade she frankly acknowledges that "it was with a sense of surprised relief that she looked upon the spacious, well-built factories and the well-guarded machinery that are the rule and not the exception in India," and that what she saw was an "emphatic protest against any sweeping condemnation of Indian factory conditions." Again, the author has a sense of perspective and rightly pleads for 'balance' in any kind of industrial reforms. Thus when she says that "it is little use to press factory legislation far, unless there is parallel advance in other laws bearing on the lives of the people," and again, that "it is unfair to gird at factory housing when the municipality allows worse conditions outside" she seems to have a truer under standing of the methods of advance than some writers on labour problems in India who have been inveighing so violently against employers.

The book is divided into three parts. Part I describes in a few pages the evolution of modern industry in India and the beginnings of factory legislation. It is in the second part entitled "Today" that much of the most valuable information to the student of economics and the social service worker is crammed in. The successive chapters that deal with conditions in the cotton, jute, tea, and other industries are interesting and contain much useful information. One feels, how ever, that the author has made far too much of the so-called compensating factors that mitigate the hardships due to low wages in the jute industry. The Bombay cotton industry which has faced the full glare of public and outside investigation has, at least in recent years, been paying fairly good wages; the jute industry, on the other hand, entrenched in a monopolistic position and secure from the fresh breeze of outside opinion has been too long exploiting the poverty-stricken workers. Where the wages of even the male operatives are so low as Rs. 11 and on the average less than Rs. 20, it is idle to say that if wages are low "rents are also considerably lower for Bengal lines than for Bombay chawls." The European bungalows, the gardens, the tennis courts, the club house, etc., might give the jute mills "a green and pleasant setting," but the conditions of workers in the jute industry are still deplorably bad and abuses connected with the multiple shift system still prevail. Children are still allowed to roam about freely in the work-rooms to the serious detriment of their health and nothing has been done by

employers to prevent this evil. The truth is that the jute mill industry of Bengal has been a protected industry in more senses than one and everyone knows that the administration of Factory Acts in Bengal had never been as strict as in other provinces. Miss Matheson's enquiry has only whetted our appetite for more facts relating to the jute industry. Nor can one agree with the all too favourable a picture she has drawn of the conditions of work and living of the plantation workers at Assam.

In the chapter on Voluntary Welfare the author gives an interesting account of the welfare activities of some of the pioneer firms in India and justifies the strong tendency in this country to concentrate upon extra-mural forms of welfare activity. But it must be a curious kind of welfare work indeed that would "debar the so-called welfare secretary from entry into the factory itself." If beneath the surface a shrewd observer notices indifference and even discontent among the workers in some of these firms, the reason is not far to seek. The welfare organisation is not related to working conditions in the factory. The author concludes the second part with an expression of some of the outstanding difficulties and no one will disagree with her when she says that the problem of wages is closely bound up with the efficiency of the workers and that unless the latter are willing to take up more intensive methods, progress must be slow.

The third part speaks of "Tomorrow" and enquires what next? Some very useful anl constructive suggestions are thrown out and they are the more valuable because each one of them is the result of observation and experienced study. Miss Matheson pleads for a reduction of working hours from 60 to 54 and suggests that it may take the form of a weekly half-holiday. "It would almost certainly be a great boon to the European members of the staff," but it is doubtful if the suggestion will be welcome to the workers themselves whose interests must after all be the deciding factor. She pleads for a suitable Truck Act and for a careful examination of the subject of minimum wage legislation and suggests that the Economics departments in the various colleges and Universities should make this a subject of careful investigation and instruction. She also throws out a fruitful hint that it would be desirable to adopt a system of six-monthly exchanges of factory inspectors between England and India in view of the need for specially qualified inspectors.

The author has done well in pointing out that further progress in industrial legislation in British India will be arrested because of the failure of the Indian States to come up to the level of the British factory laws and administration and says that a miniature "Industrial labour office is wanted in India setting a common agreed standard and with some agreed right of oversight." It is to be hoped that in the new federation provision would be made for securing a certain degree of uniformity in regard to minimum conditions.

The book is free from errors of any kind. The only slip that is noticeable occurs in page 24 where the author says that "the special rules governing the

use of lead compounds apply equally to men and women" whereas they really apply only to women. On the whole, the work is to be welcomed for the accurate and balanced description of the conditions in several industries although one might feel that she overrates the difficulties in some cases and tries to be too fair. That the work is eminently suggestive and constructive will be evident from the fact that it had enabled the National Christian Council to call for conference and pass quite a number of useful resolutions, all based on this work. A number of useful appendices and an index add to the value of the book.

P. S. LOKANATHAN.

THE INDUSTRIAL EFFICIENCY OF INDIA, by Rajani Kanta Das, M.Sc., Ph.D., P. S. King & Son, Ltd., 1930. Pp. xii+212. Price 8s. 6d.

It would have been more appropriate had Dr. Rajani Kanta Das named his book "The Industrial Inefficiency of India.' A perusal of the book leaves one with an emphatic impression of how enormously behind the other nations of the world India is in industrial efficiency or productive capacity. Indeed, the picture that has been drawn is a very gloomy one but is all the same very little, if at all, overcoloured. According to the statistical analysis that the author has made in the second chapter of the treatise, "India loses about 75 per cent of her natural resources due to inability to make full use of them, about 66 per cent of her human resources or man-power due to ill-health, ignorance and under-employment, and 66 per cent of her capital resources due to inability to mobilise social savings into national capital, to introduce modern implements and machinery, and to make full use of the existing capital goods." The total wastage of the productive factors thus amounts to more than two-thirds and the industrial efficiency of India is less than one-third of that of other industrial countries.

It is not very difficult to find fault with the statistics and the conclusions drawn therefrom and therefore to dispute the accuracy of the author's estimate of the wastage of India's productive resources. For, the extreme paucity of statistics, as Dr. Das himself admits, makes anything like an accurate assessment impossible. The conclusions drawn are based largely on guess work, at times of a very rough and sweeping nature. For instance, from the figures, none too accurate, relating to the import of fish into Calcutta during one particular year, the author draws his conclusion about its normal supply for the whole of India. Nevertheless, even if one may not accept the author's statistical estimation as a very close approximation to the truth, there is no denying the fact that the industrial inefficiency of India, if the standard of living be an index to it, is simply appalling. That a large majority of the people of India should be living constantly on the verge of starvation notwithstanding her immense natural resources and labour power is a clear testimony to the deficient productive capacity of her people.

Having made a statistical estimate of the extent of India's industrial inefficiency, the author devotes the next chapter to an analysis of its causes. The chief causes of this inefficiency, according to him, are racial characteristics, physical environment, poverty and disease, illiteracy and inexperience, religious inadaptability, social maladjustment, political subjugation and industrial backwardness. Of these, according to us, the most potent ones are poverty, disease, illiteracy and the social evils. So far as racial characteristics are concerned, the author is of opinion that, under equal conditions, Indians are as efficient as any other people, as was revealed to him by the investigation that he had conducted as an official agent of the United States Government into the conditions of the Hindustani workers on the Pacific Coast. Racially Indians are not, therefore, inferior to the white races of Europe when they compete on equal terms. Nor can physical environment of itself make a people permanently less capable than another; as the author observes, if there are differences of physical environment in which the different peoples live, they can develop their own regional economy and their own particular industrial efficiency. As regards religious inadaptability, we are of opinion that unnecessary importance has been given by a numberof writers to what they call the philosophical and other worldly attitude of the Indian people towards life, being influenced by the doctrine of *maya*. We do not want to deny that the principles of renunciation and *karma* do not have their influence on the Indian masses, but we want to assert that religious doctrines have rarely been a hindrance to material progress. All the theological strictures of Islam against usury have not prevented the Pathans from becoming moneylenders *par excellence*, and the shrewdest and most successful of Indian traders and businessmen are the Marwaris, notwithstanding their religious orthodoxy. Indeed, it will not infrequently be found that the most successful commercial and industrial communities of India are perhaps conventionally the most religious. Poverty is, however, as much a cause of inefficiency as a result of it. But things in life often move in vicious circles, and causes and effects are always interrelated. Poverty is certainly the greatest evil of our national life and diseases have made it all the more unhappy and disconsolate. That the standard of living in our country is incredibly low, that people die like fleas from diseases which are preventable, that the death-rate is abnormally high in India with an average expectation of life amounting to less than 25 years, that more than 92 per cent of the people are as yet completely illiterate in spite of the beneficent British rule of a century and a half—make us cynical about the achievements of our rulers in ameliorating the conditions of their subjects. A comparison of the relative progress that has been made by Great Britain and India since the latter came under British domination will simply astound one in noting the wide gulf of difference that has since arisen between the two nations in their material prosperity. If we are not mistaken, till the close of the eighteenth century the British people were not economically much better off than their Indian contemporaries. But while they have advanced with the swiftest

strides, the Indian people have since then simply stagnated, if not positively regressed. Even supposing for the time being that Indians suffer from all the drawbacks that have been ascribed to them by their fault-finders, is there nothing to complain of in the fact that the civilising work of a century and a half of British rule has led us economically and in other respects to a comparatively far inferior position among the nations of the world to what we held previous to this British period of our history?

After pointing out the various causes of India's industrial inefficiency, the author next passes on to suggest means of achieving efficiency. These are conservation of health by amelioration of races, development of physique, control of population growth ; social regeneration by reconstructing a new social attitude or philosophy of life and by upbuilding individual character, public morality, business honesty and social equality; political reorganisation by having a national government and with the help of constructive research, functional or vocational education and national economy; and finally, industrial reconstruction by industrialisation of production, rationalisation of industry, development of enterprise, conservation of resources, organisation of capital and administration of labour

It is easy to see from the above that though it is not very difficult to suggest measures by which India can increase her industrial efficiency and secure the prosperity and welfare of the people it will be extremely difficult, if not impossible, to put all these suggestions into immediate practice. The reconstruction of the national health as well as of all the social, political and industrial institutions requires not only the mobilisation of the active interest and concerted activities of the entire social population which is completely absent today but also the outlay of an immense amount of capital which the country lacks. The author himself is not unaware of the difficulties; but then there is no short-cut to real progress. So far as social reconstruction is concerned, we do not think that any radical change is likely to take place in India all of a sudden; at least past history does not warrant such optimism. Nevertheless, the citadels of orthodoxy have been successfully attacked and progress is not altogether out of sight. Political and industrial changes are also taking place, though we are not at all satisfied with the rate of advance. As regards capital, the author finds the first source of financing his projects in the economy of nationalising the government. The reduction of the abnormal military expenditure, and the savings from the lower cost of services following their Indianisation and the abolition of the 'home charges' are to be utilised for nation-building purposes which will improve the material condition of the masses. Next, the greater national savings that the industrialisation of the country will bring about are to be employed for accelerating the economic progress. There is no doubt that there is a vast scope for national economy in uproductive expenses that should be utilised for purposes which will not merely aim at the so-called maintenance of law and order but will also attempt at feeding the starving millions and equipping them with better means of improving their hard lot. Besides,

even under existing circumstances, the adoption by the Government of a vigorous and protective industrial policy can do a great deal in resuscitating and developing the decadent and nascent industries of India and thereby promoting the industrial efficiency of the people as well as their material prosperity. There is, however, hope since steps are being already taken, though these may not be at this moment as vigorous and whole-hearted as we might have wished. But something is better than nothing as was, till lately, the case.

The most important measure that the author suggests is the creation of a National Board of Industrial Efficiency which will conduct researches in the various branches of study that will go to enhance industrial efficiency. The Board is to be guided by a National Council of Industrial Efficiency, consisting of representatives of the different classes of the community who are engaged in industrial activities, scientific studies and general welfare work. The importance of such a central organisation which will coordinate all the different social forces in improving productive efficiency can hardly be exaggerated. There are at present a few stray government institutions like the Agricultural Research Council, the Forest Research Institute, and the Cotton Research Committee, devoted to their particular spheres. But, for a backward country like ours, a strong central association to guide all her economic activities and to act as a source of encouragement and a storehouse of information is essential for the rapid industrialisation of the country. The Economic Enquiry Committee over which Sir M. Visveswarayya presided recommended the creation of a Central Economic Board—not, of course, on the line of Dr. Das's Board of Efficiency. But a Board which will, at the first instance, collect reliable statistics regarding the various aspects of the economic life of the people, the inadequacy and inaccuracy of which the author himself deplores, is certainly the first step in mobilising the social forces for taking up a sound line of concerted national action for the economic uplift of the country. Nothing has, however, happened till now, though the Economic Enquiry Committee made their Report in 1926. Of late, the Government seem to have awakened from their siesta and Sir Arthur Salter of the League of Nations was recently invited to India to advise them on the formation of an Economic Board. Sir Arthur had a tour over the country and held consultations with various individuals and institutions in this connection. It may be hoped that something definite will soon come out.

Compassed within a small volume of a little more than 200 pages, the author necessarily takes a bird's eye view of the numerous aspects of the vast problem of India's industrial inefficiency and of its remedy. Nevertheless, he has put before us in a very readable form the salient features of the problem and its staggering magnitude, and has also suggested a sound line of action, though we must confess that, from their very nature, some of the remedies proposed are rather theoretical and academic. The real achievement of the author, however, lies in his success in presenting to us in a concrete form the extent of the economic inferiority

of our country in comparison with the civilised countries of the West Those who talk glibly of the vast achievements of British rule in India in improving the material condition of her people should do well in going through this book. It will remove the complaisant mood of many an admirer of the economic advancement that India has so far made and give a rude shock to the false optimism of others who would like to ignore facts as they are

There are one or two misprints in the book, but of a trifling nature For instance, Jack s *Economic Life of a Bengal District* has been printed as *Economic Life of a Bengal Village* in the footnote on page 30 As regards statistics, the author deserves praise for indicating the sources for every one of them in the footnotes but we wish he had given the comparative figures from one set of international publications instead of giving them from different sources such as the *World Almanac*, the *Statesman's Year Book* *Annuaire Statistique*, etc As is well known owing to the absence of a uniform method of compilation, considerable discrepancy occurs between the same set of figures compiled by the different bodies

The poverty of India is nowadays as proverbial as was her prosperity in by gone days At the present juncture when there is a general awakening in the country and the people have not only become alive to their defects but also anxious to remove them, the author's appeal to India's philosophers and moralists, scientists and technologists, statesmen and jurists, reformers and publicists, economists and entrepreneurs to upbuild her national health to regenerate her social life, to attain her political autonomy to develop her national economy to reconstruct her industrial system and thus to achieve industrial efficiency is most timely and will not go in vain We entirely agree with the author that it is through industrial efficiency alone that India can fully utilise her immense resources of land labour and capital for the wealth and welfare of her people and lay the material foundation for their moral and intellectual progress

S. C Bose

Double Taxation and International Fiscal Co operation, by E R A Seligman Macmillan & Co 1928 Pp 203

In the concluding chapter of this book Professor Seligman makes the following observation As we begin to think alike old shibbolethes will disappear and the traditional prejudices will melt away In every domain of economic and political life we see the beginning of this marvellous transmutation Is it too much to hope that in the fiscal field as well similar metamorphosis will show itself " Professor Seligman is confident that fiscal cooperation will, on account of the pres

sure of practical interests of everyday life, contribute in no small measure to the inauguration of the "era of world understanding, of world peace, and of world progress, and which is perhaps nearer than many of us have dared to believe."

Professor Seligman is an acknowledged authority on all questions of public finance; and when he comes to a conclusion based on such an optimistic outlook of the future, we can have good reason for believing that the solution of one of the most difficult problems of international life is well within sight.

The book consists of eight chapters. In the first two the author gives a lucid account of the genesis of the problem and of the nature of the actual difficulties. He reviews the course of economic evolution and points out how with the growing economic interdependence of the different parts of the world, political divisions become entirely out of accord with the facts of life and give rise to numerous difficulties. "The result," in the words of the author, "is a fiscal chaos or a fiscal anarchy and with every year of increasing international economic life, the confusion becomes worse confounded." Out of this fiscal chaos fiscal order has to be evolved by fiscal co-operation, and the succeeding chapters of the book are devoted to the study of the methods by which this end can be achieved. In the third chapter the history of the earlier attempts at a solution of the problem of double taxation is given. A list of 49 treaties on double taxation is given, but it is made quite clear that what has been done in the past is utterly inadequate to meet the needs of the situation and much remains to be done.

The fourth and fifth chapters are analytical. In the former a classification of taxes is given from an entirely new standpoint. Taxes are classified according as they are personal or impersonal; but between these two categories are placed a number of taxes which are neither one nor the other but partake of the character of both in varying degrees. The fifth chapter is an analysis of the elements of location and residence in taxation, and generally speaking it is held that the element of residence or domicile is the controlling consideration in the case of personal taxation and the element of location or situs in that of impersonal taxation.

The remaining three chapters of the book give us a review of the conclusions of the League of Nations' committees of economic and tchnical experts. Incidentally, Professor Seligman pays a warm tribute to the work of the League of Nations and describes how it is creating an atmosphere in which suspicion is converted into confidence, doubt is resolved by the feeling of certainty of accomplishment and aloofness gives way to warm personal friendships which contribute materially to the smoothing out of the difficulties. It is not necessary to summarise these conclusions here. They are well-known to the students of recent fiscal literature. The conclusions are of a tentative character and the difficulties of formulating principles of general application are admitted. But it is also asserted that a solution equitable to all parties can be devised.

The problem of double taxation is not only an international problem but has also an important national aspect in all federal countries. In India the problem

is sure to arise and call for solution under any scheme of financial readjustment, and a study of the problem in international sphere and in other federal countries cannot but be of immense value in solving our own problem The study of Professor Seligman's book will be very helpful for the purpose

GYAN CHAND

RATIONALISATION OF MONEY by H K Scott of Kodaikanal South India Trichinopoly 1930 Pp 156

The book before us is a collection of articles and letters contributed by the author to various papers It is an attempt to place before the reader the disadvantages of fluctuations in the value of money The author points out that prices paid depend more upon the purchasing power of consumers (in India) and upon the bartering power of foreign traders subject to competition from other sources of supply than upon the monetary cost of production In order to avoid the danger of our civilisation like unemployment strikes discontentment, etc i e , to have economic security currency (then) must be related to perishable wares as marketed and must also be perishable or subject to cancellation coincidently with consumption or service in use of these necessities In short the author aims at providing currency supported by bills of exchange Too much importance has been laid on the self liquidating nature of a bill Money is used not merely as a medium of exchange but also as a storer of value It is very doubtful that notes having nothing else but bills behind them will be readily accepted Moreover there would be a distinct danger of inflation although the author asserts that no risk of inflation could arise because every bill would reflect some actual creation of value in terms of goods

During the post war period several schemes have been placed before the public to solve the currency problems facing the world The Managed Currency System of Prof Keynes and Compensated Dollar Scheme of Fisher are important examples but none of them has been accepted as practical There is consensus of opinion that although gold may not be in active circulation, still the currency must be linked on to gold The recent adoption of the Gold Bullion standard by most of the countries of the world is a living indication of the fact that artificial interference with the currency system would not be tolerated Mr Scott's scheme has many good points in it, but it is not practicable

The book on the whole provides an interesting reading and is a welcome addition to the economic literature

L C TANDON

Elements of Economic Principles, by J. P. Singhal, M.A., LL.B., F.R.E.S., Assistant Professor of Economics, Holkar College, Indore. 1929. University Book Depot, Agra. Pp. 513.

This book is a valuable addition to the literature of Economics. A number of books have recently appeared dealing with individual Indian economic problems, but the author of this book has made a departure from the oft-trodden path. He has explained the principles of economics by taking Indian illustrations. He has rendered very useful service to the students world, and has filled a long-felt gap.

The author has very sparingly used curves. Throughout the book, curves appear only twice. The place of graphs and curves is high in making the students understand economic phenomena clearly.

In the modern world, production is carried on not in response to individual orders but in anticipation of wants. Therefore Chapter XXXI, which deals with principles of consumption should be given before Book II dealing with production. Problems of consumption which need knowledge of the general principles of economics are discussed in their proper place. The subject is wide and of great social importance. The author has summarised the subject well. As the book is to be mainly used as a text by the students, the author would make it all the more useful if at the end of each chapter he gives a set of questions and a small bibliography.

L. C. Tandon.

A Bibliography of Social Survey: Reports of Fact-finding studies made as a basis for Social Action; arranged by subjects and localities, Reports to January 1, 1928. By Allen Eaton, Department of Surveys and Exhibits, in Collaboration with Shelby M. Harrison, Director, Department of Surveys and Exhibits, Russell Sage Foundation, New York, 1930. Pp. xlviii, 467. Price $ 3·50 net.

It is somewhat difficult to review a work of this character as, apart from the fifty pages of introductory matter, the whole of the book of over 500 pages is simply a list of Surveys which have been undertaken in specialised fields of social investigations in the United States, together with the purpose, methods, and standards of such surveys and a very complete geographical index which in itself runs up to 100 pages.

The introduction is a well-written description of the history of this kind of specialised work in the United States of America and there is also a discussion of its principles and usefulness. It may be said that while it is highly desirable that attempts should be made in all countries to improve the prevailing social conditions, there is yet much waste of time, money and effort in all lands owing to the lack of the necessary primary study of sound principles

on which to work, and there is also a deplorable lack of knowledge of the actual conditions which it is sought to improve. Hence we can agree with the writer of the introduction to this substantial volume that

> "The changing community conditions, the increasing demand for united action by citizens in order to control tendencies in the public interest, and the growing conviction that control and improvement can be more intelligent and effective if based on knowledge, have combined to make the social study or survey almost one of the indispensable activities of the modern community, whether it be neighbourhood, parish, village, city, region, or state"

and we cannot but agree with him, when he states further, that

> "The first essential in carrying out such a purpose was the ascertaining of the facts in each particular case—the all-round diagnosis of the causes and the all-round application of the resources of the community to relief and rehabilitation."

Much has been done in recent years to ascertain the facts, especially in the United States of America and an effort has been made to realize that

> "The social survey is a cooperative undertaking which applies scientific method to the study and treatment of current related social problems and conditions having definite geographical limits and bearings, plus such a spreading of its facts, conclusions, and recommendations as will make them, as far as possible, the common knowledge of the community and a force for intelligent coordinated action."

So far as one is able to judge we are only in the beginning of this kind of work in India but one does feel that scholars and students throughout the country are realizing that policy must be based on sound research work, and that surveys throughout the whole field will have to be undertaken if the best results are to be obtained from the laudable efforts which are being made in certain directions to improve the conditions in this land of Hindustan.

As this work is developed it is to be hoped that some attempt will be made at a coordination of effort and to further such coordination it will be desirable that some future research students or professors will do for India what has been done for the United States in this excellent volume, and publish a full bibliography of such social surveys.

J. W. THOMAS.

Central Banks, by C. H. Kisch and W. A. Elkin. Macmillan. Pp. 427. 18s.

The study of Central Banking on any systematic lines has received special attention only during the last decade. It was as a result of the Brussels International Financial Conference of 1920 that the movement was first set on foot for the establishment of Central Banks of Issue in countries where they did not exist. "In the following years the advice of the Brussels Conference was widely followed. New Central Banks were formed and many existing Banks drastically overhauled. The reorganisation of the Reichsbank was an integral part of the Dawes scheme; the countries that previously formed part of the Austrian and Russian Empires as well as certain of the Balkan countries established new Central Banks. Similar steps were taken in some of the South American States and in South Africa, while the creation of a Reserve Bank in India was also proposed. In other countries, such as Belgium and Norway, though the previous structure remains, important changes were introduced."

But while so many Central Banks were being either formed for the first time or reconstructed, the theory of Central Banking was a matter of experience of the leading bankers or of knowledge possessed by a few experts. There was no convenient book on the subject—not even a record in one place of the constitutions of the Central Banks in the various countries. To Kisch and Elkin goes the credit of supplying the want in their book entitled Central Banks. Issued first in January 1928, it has already run into three editions. In the latest edition of 1930 the authors have brought the subject-matter up-to-date so as to include among other changes those introduced into the monetary legislation of the United Kingdom, France and Italy.

The book is an exhaustive study of the theory of Central Banking, in so far as such a theory has been developed. The application of the theory is illustrated by reference to the bank charters of different countries. Questions such as the significance of a Central Bank: its functions: its relations with the State; its mechanism and administration; its relations with the money market and with other Central Banks are all fully dealt with. The importance of progressive co-operation between the Central Banks cannot be exaggerated. "This aspect of their activities, though new, is constantly developing and promises, with the gradual rehabilitation of state finances, a rich harvest of benefits to national well-being and industry." The establishment of the Bank for International Settlements is a great practical step in this direction.

The authors have greatly added to the utility of the book by giving a very convenient summary of the laws, charters and statutes relating to no less than 31 Banks of Issue. The inclusion of the Gold Standard Act of 1925 and the Currency and Notes Act of 1928 in the form of a separate appendix is a special feature of the new edition of "Central Banks." Besides there is a bibliography at the end which should prove useful to all students of Central Banking.

L. C. J.

THE BANK FOR INTERNATIONAL SETTLEMENTS. by Paul Einzig. Macmillan. Pp. 179 7s. 6d.

It is the first book of its kind on an entirely new subject. The author rightly has not devoted much space to the reparations aspect of the scheme as in that respect the Young Report does not require elucidation. Dr. Einzig has chiefly concerned himself with the problems connected with the international banking activities of the Bank for International Settlements, such as the proposed international gold cleaning system, a world bank rate, facilities for credit expansion, etc.

The need for co-operation between central banks at the present time is hard to exaggerate. "The non-reparation functions of the Bank will contribute to bring about a more equal distribution of the world's financial resources as between various countries. They will tend to eliminate the abnormal discrepancies between interest rates that developed since the War over and above all they will tend to stabilise the international price-level, and to counteract a general and prolonged decline of prices" (p. 51). The possibilities of the Bank are indeed wide and they are of peculiar interest at the present juncture when the world is in the throes of a general fall in the price-level which the Central Bank of Central Banks is expected to avert.

Dr. Einzig's analysis of the functions and mechanism of the Bank is simple and clear and leaves little to be desired. His chapter on the "world bank rate" is specially interesting.

But the institution which is the subject of Dr. Einzig's book is so new that it is difficult to speak with any precision what the Bank *can* do or what it *shall* do. These, however, are important questions which we would like to see answered in the next edition of the book, when it is published.

L. C. J.

PRINCIPLES OF AUDIT, by R. S. Ramaswami Iyer, M.A., L.T. With a foreword by J. Ryan, M.A. 1930. Price Rs. 2-8-0. Pp. 189.

This monograph describes the principles underlying Cooperative Audit in a simple and lucid manner. The principles of Audit of ordinary companies as well as Cooperative Institutions are essentially the same and the author has done well in pointing out how Cooperative audit has to be done more thoroughly.

It is unnecessary in this Journal of Economics to review the contents in greater detail. Students preparing for Government Examinations on audit will find this booklet helpful.

B. R. RAU.

PAPERS RELATING TO THE BRITISH INDIAN SEA CUSTOMS DUTIES AND INDIAN STATES, by Sardar M. V. Kibe, M.A. With a foreword by Sir M. N. Mehta. Pp. 82. 1929. Printed at the Srinath Press, Indore City.

The monograph under review is a collection of papers written at different times on the important but hitherto neglected subject "The Indian Tariffs and the Native States."

Since the years 1865 and 1877 when the transit duties were abolished at the suggestion of the British Government by the Native States the relations between the Indian States and the Paramount Power with reference to the equitable division of the import duties levied at the ports have not been satisfactory. The evils of double taxation to which the people of the Indian States were subjected have not drawn sufficient attention. Now that the topic of Federation is being seriously discussed the readjustment of financial liabilities and a fairer distribution of taxation would receive adequate attention. It is indeed a pity that most of the Native States neglected to secure the most-favoured-nation treatment of exemption of their subjects from the British Customs Duties when they agreed to give up transit duties. A Customs Union on the lines of the German Zolleverein is advocated to grant immediate redress to some of the Indian States stationed in the hinterland. The division of customs duties on the basis of consumption instead of population is rightly advocated. Even the recent Indian States Committee has failed to draw sufficient attention to this legitimate grievance. At any rate its main recommendation that a further committee ought to discuss this problem should not be shelved any longer. It is glaring injustice to deprive the Indian States of the increasing share of the Customs Duties which their people pay while importing goods through the British sea-ports. If the Federal Constitution is settled to the satisfaction of the Indian States and the British Indian Provinces this fiscal problem will be automatically solved or dissolved.

B. RAMACHANDRA RAU.

THE MODERN CASE FOR SOCIALISM, by A. W. Humphrey., Allen & Unwin, Ltd., London. Pp. 272. Price 12-6.

The author states the purpose of his book to be to present certain of the main elements of socialism in the light of the existing economic situation, current political experience and recent socialist discussion. We are of opinion that his treatment of the subject justifies his claim. Books written on Socialism are innumerable, but there are few which take up modern, up-to-date economic developments and attempt to demonstrate the necessity for the establishment of a socialistic

regime in society. Mr. Humphrey's book is of this latter order. So the assumptions of capitalism, viz., liberty of action, effectiveness of competition, usefulness of economic institutions and effort for the common weal are examined in the light of present-day tendencies and are shown to be no longer holding good. For instance competition which is one of the leading articles in the creed of capitalism and is the motive force of industrial progress, is shown to be inoperative in the largest and most important divisions of the industrial field. Humphrey observes: "We may, however, say that the dominantly competitive era had passed its zenith with the passing of the third quarter of the eighteen-nineties onwards there has been rapid and steadily accelerating development of capitalistic combination for the purpose of increasing profits by restricting output fixing prices and effecting economies made possible by production on a larger scale."

He defines the purpose of socialism in the following words:

"The root contention of socialism is this: that the resources of Nature are so vast as to be capable of amply supplying the needs of all, and that it is well within the capacity of mankind to exploit those resources and distribute their products in such a way that poverty—or anything approaching what we now understand by poverty—would disappear. Further, the production of wealth would be so increased and the organisation of productions be so improved, that most of life would not as now be occupied with anxious striving to satisfy physical needs. Instead of this condition of things, mankind would have time and scope for cultural development far in advance of anything we now learn, when indeed, the opportunities of the mass of the population for enjoying the higher things of life are negligible or non-existent. It is the starving of the mind and the cramping of the spirit no less than the deprivation of the body, which is the subject of the socialist protest."

Mr. Humphrey after examining State and Municipal enterprise in a very large variety of industries before, during and after the War is of the opinion that nationalisation or more precisely socialisation of economic life would not be a failure but indeed a positive success.

He also emphasises the fact that socialism implies not only a change in ownership but a change in authority and power. Guild system of organisation will supplant the present private control or bureaucratic exercise of authority.

The book is extensively furnished with live examples from the existing business and industrial world. It is on the whole a judicious and stimulating reading. It is well documented and supported by authoritative books and publications.

S. K. R.

POVERTY AND THE STATE, by Gilbert Slater, M.A., D.Sc. Constable & Co., Ltd., London. Price 12s. 6d.

We feel certain that students of Indian-poverty problem will find Dr. Gilbert Slater's book, "Poverty and the State" of vital interest. We have a gigantic war to wage against the gnawing poverty of the millions of our fellow-countrymen. Any light that we can get of how poverty had been attacked in other parts of the world cannot but be of much value to us here in India. In this book we have an able, clear and instructive treatment of the problem of Poverty and the efforts made by private persons and organisations and the church and the state to combat the evil. It is clear, and a study of this book reaffirms the conviction, that what is needed in India, short of some form of Socialism, is active, coordinated participation between the state and the peoples in organising for relief of the poor of the country. Minimum conditions of life have somehow to be secured so that starvation, insanitary living and wretched housing and deep ignorance may become the nightmare only of the terrible night of the nations past. The public alone and the Government alone cannot do much. We need the combined resources and the powers of organisation of the entire country, the people and the state, to help to lift up a little the sunken masses. For says Dr. Gilbert Slater: "From the individual point of view poverty is a personal misfortune; from the social point of view it is the symptom which betrays the failure, or at least the partial failure, of the state to achieve 'the good life for the community which it serves, for, in its economic aspect, 'the good life' implies adequate production, just distribution and wise consumption of those things which minister to life."

It is best perhaps to give in the learned doctor's own words the scope and the method of the study followed in the book:

> "In the chapters that follow an effort is made to give in broad outline the story, for England and Wales, of the course of social struggle of the community against the more glaring evils of poverty, and against poverty itself in its extreme forms. This struggle began many centuries ago, but only in very recent times has enlisted a large share of the national effort, and its issues come prominently into the national consciousness. Gradually the aim of leaders has developed from mere mitigation of the distress caused by poverty to more effective rescue of individuals, and thence to a study of causes and the organisation of preventive work. In view of the complexity of the causes of poverty, and the multiplicity of the agencies concerned in combating it, it is not easy to devise a simple and logical arrangement of the subject-matter. The plea here adopted is based upon the historic fact that at one time or another some particular problem of poverty has taken on so threatening or urgent a form as to elicit some new effort of private or public initiative which has ever since persisted

under varying forms. As far as possible these emergencies are taken in chronological order, and the resulting initial effort with its later developments discussed in their connection therewith."

The list of chapters in the book will indicate the problems studied. Each study is thorough, illuminating and up to-date. The chapters are: Introduction; Voluntary Health Insurance: The Elizabethan Poor Law; the Breakdown of the Old Poor Law and the Passing of the New; Preventable Disease and Sanitary idea, the Care of the Child in the Nineteenth Century; the Care of the Child in the Twentieth Century and the Ministry of Health: Hospitals, Doctors and the State; the Care of the Aged: Overcrowdity and Slums; the State and the Trade in Alcohol; Betting and Gambling; and Mental Deficiency: the Blind, the Deaf and the Crippled; the Unemployment. I. Pre-War Experience and Theory; II. Relief Works and Insurance: III. the Post-War Unemployment Problem; the future of the Race.

A useful Bibliography is also given.

S. K. R.

MORAL SENSE, by James Bonar LL.D. Allen & Unwin, Ltd., London. Price 12s. 6d. Pp. 304.

This book deals with a theory of Ethics which held sway in England during most of the eighteenth century. The problem of Ethics is to find a satisfactory answer to the question—Why do we call things right or wrong, good or evil? What is the standard in view of which we pass moral judgments, and how does the individual come into possession of the standard? A number of thinkers in the eighteenth century developed the theory that the ethical problem finds its solution in the fact that human beings possess a moral sense. Just as we have a sense of sight that knows visible objects and a sense of hearing that apprehends sound, so, it has maintained, we have a moral sense by which we become aware of the distinction between right and wrong.

Dr. Bonar shows us this *moral sense* theory taking its rise in the writings of Shaftesbury. As a standard of moral discernment the moral sense seems to be closely related in Shaftesbury's thought with the tendency to promote public good. He argues that the individual is always part of a wider whole, and has a kind of innate or instinctive affection towards society. There thus comes to be a natural approval of conduct that is good for the whole. The objection to virtue lies in the fact that the chief source of individual happiness is the strong development of the kindly, generous affections which are directed to the public good, whereas the chief source of personal misery is to have the private, self-regarding affections too strongly developed.

Dr. Bonar leads his reader through the intricate arguments by which Hutcheson advanced and consolidated the Moral Sense Theory, the first hints of which he got "from the great writers of antiquity and from Shaftesbury." He also expounds for us the penetrating analysis of Hume, who is to be reckoned among the members of the Moral Sense School, but who, as was his philosophic destiny, introduced elements that led out beyond his own system.

These three—Shaftesbury, Hutcheson and Hume—are the chief names in the school, though Butler may be called a critical supporter. Besides delineating the thought of the school from the writings of these, its chief representatives, Dr. Bonar shows us the criticism that this idea met with at the hands of Berheley, Mandebille, and others.

Much space is given to Adam Smith's book, *The Theory of Moral Sentiments*. Adam Smith rejected the theory of the Moral Sense, and since he was on a footing of intimate relationship with Hutcheson, Dr. Bonar declares that "his criticism and eventual rejection of the theory may therefore be said to come from the inside of the school." He himself explained morality through the fact of sympathy and without resort to the ider of a moral sense. He put ourselves into author's place by imagination. He imagines how *we* would feel in that position. Then we think how an impartial spectator would judge our sentiments. Would he regard them as appropriate to the existing cause, or as too strong or too weak? Conscious sympathy with the feeling of another is *approbation*. Then we look to the effects of the actions arising from the feelings, and sympathy with the gratitude of those who benefit gives rise to the idea of something more than *propriety*, namely, merit. So *sympathy* is the explanation of our moral nature—sympathy whereby we feel concord with the sentiments of the agent, and concord with the gratitude or resentment of the beneficiary or the sufferer. Moreover, we all bear within us a judge or arbiter the "Man within the breast," the "Impartial spectator," whose *sympathy* with one actual self and its doings is the real standard of right and wrong.

Dr. Bonar himself seems to hold a view similar to that of T. H. Green or Edward Caird. He at any rate criticises Adam Smith and others from the standpoint of *self-conscious reason*. In man passions and feelings are transformed by the fact that they belong to a self-conscious subject. Thus Dr. Bonar suggests that "we should perhaps find in the 'spectator' only an awkward expression for self-consciousness. Every man *qua* reason is the impartial spectator confronting the passions" (p. 181).

In the author's exposition, Adam Smith and Kant form a bridge from the error of the moral sense school to the conception of morality as finding its source in a universal Reason which is partially and progressively embodied in social institutions. So he points out that while "there is certainly in the civilized ordinary man a perception of good and evil, which seems from our familiarity with it to be immediate and instinctive, yet it is no more so than our use of our native language, or our erect position, or vision of distance" (p. 216). There is no such

thing as a moral sense that is given fully fledged at the start. What is given to the human soul is the capacity for sharing in the life of reason, and that capacity is realised through the individual's membership of various institutions of the social life, such as the family, industrial society, the state, etc. These institutions are the individual's training-ground, and the result is the development in him of what can be called a moral sense.

Another aspect of Adam Smith's teaching by which it may be learned that the moral sense has the nature of a *terminus ad quem* rather than a *terminus a quo* is his conception of propriety. The truly moral man will act with propriety, i.e., his actions will be the outcome of sympathy with that degree of emotion which is right. This is practically identical with Aristotle's doctrines of the *mean*. "Adam Smith," says Dr. Bonar, "reaches propriety by a turning up and a turning down till we reach concord, the man of typically good ear deciding when we have reached it" (p. 183). Now clearly both Adam Smith and Aristotle have to meet the objection that the extremes can be known only by the *mean*, we could not know the extremes of excess or defect, except through the judgment of the wise man who knows both. The question then is, how does the morally wise man set his knowledge? Where does his sound instinct and judgment come from? Aristotle would say that he gets it by being a citizen of a good state—through his membership of its institutions. Dr. Bonar thinks that Adam Smith had the same answers in mind. For he said that "morality begins with the family, then society, then the state, the range though not the intensity of the sense of duty expanding in a man as he feels himself in the larger after the smaller circles" (p. 184).

Up to a point Adam Smith seems to make morality dependent upon the mirroring of what is, i.e., the doing of what our fellow-men approve. But this is only "in the first instance." For there is always an appeal to the impartial and well-informed *Man within the breast*. Thus conduct comes to be determined not merely by desire for actual praise, i.e., aversion from actual blame, but by the desire to be praiseworthy, to *be* good as well as to *seem* good. This clears the line for progressiveness in morality. In this connection a very interesting example is given by Dr. Bonar on page 195, where he shows how Adam Smith, through his conception of the impartial spectator, rises to the apprehension that patriotism is not enough.

Dr. Bonar's book while being a thorough and scholarly work, is written in an easy and attractive style. Occasional biographical allusions give a human-nature touch that lends a quiet charm. It might perhaps be asked why the book should have been sent to review in an Economic Journal, for it has nothing to do with Economics. The reason may be that the writer is clearly well-known for three or four books that he has written on Economic subjects, and because Adam Smith is one of the authors whose theory of Ethics is examined.

There are in the book three incidental references to Economics, and as they are all interesting we shall close this review by calling attention to them ;

One is on page 84, where Hutcheson is quoted as saying that "self-love is really as necessary for the good of the whole as benevolence," and that motives of honour and advantage are necessary to keep us pursuing industrially the course which really increases the good of the whole. This is declared to be the basis of the Economic teaching of Hutcheson and in far larger measure of Adam Smith.

The second reference to Economics is on page 130, where Hume is quoted as saying that "if everyone had the same affection and tender regard for everyone as for himself, justice and injustice could be equally unknown among men It is only from the selfishness and confined generosity of men along with the scanty provision nature has made for his wants that justice derives its origin" On this showing, justice and value have the same origin.

The third reference is on page 185, where mention is made of Adam Smith's opinion that there is a better distribution of happiness in the world than there is of health. "Ambition, says Adam Smith, is usually folly, due to desire of shining, and sometimes desire of a fancied comfort no greater than what is already possessed. . What can be added to the happiness of a man who is in health, who is out of debt, and has a clear conscience? . . . wealth and greatness are mere trinkets of frivolous utility" Dr Bonar expresses the natural wonder that such a plea for poverty should have been written by the author of the *Wealth of Nations* But it appears that ambition is not finally shunned, and that Adam Smith, though seeing its hollowness yet regards it as a happy illusion, for he says 'It is this deception which rouses and keeps in continual motion the industry of mankind," and also it is "the bustle and business of the world that have trained the man of real constancy and firmness who keeps his self control and is always mindful of his inward motion."

JAMES KELLOCK.